

MARKETING & MEDIA DECISIONS

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MEDIA COSTS '87

WATCH YOUR STEP

Balancing marketing goals and media strategies under the weight of budget constraints will be more difficult than ever. An in-depth look at what factors will influence rates in 1987.

BRAND REPORT: COURIER SERVICES



MARKETING & MEDIA DECISIONS

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THE LAST LAST WORD

In "The Last Word" in your June 1986 issue, Dr. Leonard Lodish worries that there has been little improvement in advertising in the past 50 years. Further, he blames the lack of proper research with "instrumented markets" for not giving advertisers the data they need to improve their advertising productivity.

Dr. Lodish's misperception, viewing the world as static, is much too common in academia. Business is a competing and hence dynamic arena not willing to freeze at the incantation "ceteris paribus."

Lodish longs to establish a relationship between specific advertising and campaigns and company objectives.

Lodish's theme, that advertising productivity should have, but has not, improved over the years, is flawed for a number of reasons:

1. Saying that advertising productivity has not improved in 50 years is analogous to saying that the 1929 Yankees would win this year's World Series. Television, about 36 years old, alone drastically reduced CPM. *The Saturday Evening Post*, in height, reached less than 4 million in a population of 180 million. Television advertising established mass markets that benefited all . . . by giving production the economics of scale and "learning curve" that Lodish feels they found on their own.

2. People have changed, and will continue to change. If a hypothetical, perfect advertisement were produced — that is, all that saw the ad immediately went out and bought the product — what happens after the consumer buys the product? Very few products today really live up to all implied claims. However, simple learning theory tells us that if our product does not come close to our promised benefits, the consumer will soon learn to ignore our message. The product anchors our hot air balloon; we can only rise a finite distance above it. An advertisement may be "too effective" in that it elicits unrealistic expectations in the consumer. Trial is high, but repeat purchase a disaster.

3. The world is changing faster all the time. A firm that goes to the trouble of carefully testing their campaign in "instrumental markets" may find that the competition has been forewarned, developed a campaign to counter and launched it before the "instrumented market" data could be analyzed. Using focus group research rather than "instrumented markets" can not only be drastically faster and cheaper, but keeps the firm closer to understanding the consumer. "Instrumented markets" are more for precise testing than understanding. Time between test and

operationalization severely warps results of exact tests. An understanding of consumers allows for rapid interpretation of the effects of recent occurrences without all new testing.

4. Image advertising has a large flywheel. Westinghouse recently surveyed consumers on what phrase they associated with the firm. Westinghouse hadn't used the tag line, "You can be sure it's Westinghouse" in the seven years since they left the consumer business. They found little decrease in awareness in the seven years of non-use. The flywheel was still spinning. The real results of your present campaign may be coming in over the next decade. How does one today measure the impact a current campaign will have a decade hence?

5. Direct marketers don't waste 50% of their dollars. They waste 90%-99%, and they know which is waste (by name, address, demographics and psychographics). John Wanamaker wasn't complaining about waste, but simply stating that advertising is a process of refining probabilities. There are no sure bets.

Bruce Buskirk
Asst. Professor, Direct Marketing,
Northwestern University

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CORRECTION

In the introduction to June's "Newspaper Brand Leaders" special report, Parliament brand cigarettes' \$4.7 million in newspaper ad expenditures was mistakenly attributed to American Tobacco. When they are factored out, American's expenditures in newspapers in 1985 show a 4% increase over the previous year and total \$2.6 million.

Parliament is a Philip Morris brand. Its addition to the PM total brings that marketer closer to number-one newspaper spender R.J. Reynolds. PM investments in the media for its cigarette brands totaled \$66.1 million, compared to RJR's \$68.3 million.

WATCH YOUR STEP!

1986 will probably go down as the Year of the Great Media Upheaval. Everything from planning, pricing and buying to ownership seemed to be in an incredible, unnerving state of flux.

Who should be planning and buying media — a full-service ad agency, media buying outfit, or an in-house operation — escalated from a discussion into a full-scale debate. Which of these three would get the best pricing and/or packages from media sellers who were under the gun like never before to negotiate all manner of space or time? That question became a key issue and a game of one-upsmanship among advertisers, who changed media budgets, agencies and media vehicles with dizzying speed.

As always economics, and the resulting shifts in power, acted as the catalyst for the media upheaval. With the key economic indicators pointing in all directions (but mostly downward), corporate profits dimming, and even more uncertainty on the horizon with the promise of a radical new tax bill and a still gaping federal budget deficit, marketers began trimming back their ad expenditures and demanding full value for their media dollars.

Their resentment at what they considered to be excessive rate hikes in the past finally spilled over into concerted action. With one major advertiser publicly leading the way — General Motors — the others coalesced and sent a blunt message to media sellers and agencies alike: Get me the best deal or I take my business elsewhere.

The media, hit hard by the general cutback in advertiser budgets, the plethora of ad options, and especially punched by the declining fortunes of such key industries as liquor, tobacco and computers, began to bend to client requests. Agencies, meanwhile, found

clients clamoring for better, more creative media buys, reduced agency commissions and increased accountability. And when agencies began their own round of merger activity in earnest (following client and seller couplings), advertisers promptly made their displeasure known over possible account conflicts by yanking business.

It is against this backdrop of change that we present our annual Media Cost



Issue. Usually we ready the issue for a mid-September release, but in this hectic year we felt to truly achieve our goal — which is to make this special feature a real planning tool — we should advance our schedule to August and better match the time our readers sit down to hack out their budgets.

The cost trend is clearly apparent in our articles handicapping the outlook for major media. A slowing economy and more supply than demand has stabilized, and in some instances reduced cost increases. This year's Big Number — the average media unit cost increase as projected by our poll of agency media directors — is 5.5%, compared to a reported actual media unit increase

of 6% in 1986.

The 6% actual cost increase underscores just what kind of year 1986 has been. Our survey, which has an excellent record for accuracy (see charts), anticipated a 7.5% overall unit increase last year. But in fact, eight of the 10 media covered posted lower-than-anticipated rate rises.

Network television, undoubtedly the most aggressive raiser of rates, got its comeuppance this year, in the view of many people. Business faded away as advertiser's bottom lines came under pressure, uncertainty crept in over exactly who was watching what and when, syndication flowered and network inventory swelled with the cheaper 15-second commercials. The outlook for 1987: more of the same.

Each of the other media have strong pressures of their own weighing down any price-hike plans. For example, magazines will have a tough time justifying rate hikes when paper, printing and postage costs all moderated this year, while many circulation statements showed little to crow over.

Certainly it would appear as if there will be plenty of good buys around in 1987. The question is, who is going to grab them? Marketers are making noises about streamlining ad budgets further.

That is not necessarily a bad thing. Designing an effective and cost-efficient media plan should always be the goal. But from the way many companies/agencies are talking, media buying may have little to do with good planning. The "save" motive may be so strong as to undermine the marketing objective. Does anyone remember the lesson of the last economic downturn? The companies slowest off the recovery starting blocks were those that had slashed their marketing budgets.

Be careful out there. The media balance beam is tricky.

Media Cost Rises

	1987 vs. 1986 Anticipated	1986 vs. 1985 Actual	1986 vs. 1985 Anticipated	1985 vs. 1984 Actual	1985 vs. 1984 Anticipated	1984 vs. 1983 Actual	1984 vs. 1983 Anticipated	1983 vs. 1982 Actual	1983 vs. 1982 Anticipated
Average increases—unit cost									
Nighttime network tv	4.0%	5.9%	7.0%	7.9%	9.2%	10.6%	9.6%	10.3%	10.7%
Daytime network tv	-3.8	3.9	6.9	10.5	12.7	11.4	8.1	8.4	8.5
Spot tv	5.5	5.8	7.7	7.6	7.8	9.8	10.9	8.1	8.5
Network radio	5.1	9.1	7.2	7.9	7.3	8.0	9.0	7.8	8.7
Spot radio	4.4	5.6	6.8	6.7	7.4	8.7	8.7	7.5	8.4
Consumer magazines	6.7	7.0	7.7	8.0	8.2	9.1	9.0	9.2	9.0
Nat'l Sunday magazines	5.1	2.9	6.7	8.3	8.3	9.1	7.9	8.1	8.9
Daily newspapers	7.2	7.4	7.9	8.0	8.5	9.0	9.3	9.9	9.6
Outdoor posters	5.3	5.7	7.2	6.5	7.3	8.0	9.8	8.7	8.5
Business publications	6.3	7.6	7.2	6.7	7.6	7.5	7.3	8.0	8.5

Source: Marketing & Media Decisions

Actual Media Cost Movements 1986 vs. 1985 (Average changes)

Medium	Unit Cost	Audience	CPM
Nighttime network tv	5.9%	-0.2%	6.1%
Daytime network tv	3.9	-1.3	5.3
Spot tv	5.8	0.0	5.8
Network radio	9.1	0.7	8.4
Spot radio	5.6	0.7	5.0
Consumer magazines	7.0	0.6	6.5
Nat'l Sunday magazines	2.9	2.6	0.3
Daily newspapers	7.4	0.8	7.4
Outdoor posters	5.7	-0.7	6.5
Business publications	7.6	1.8	5.8

Response ranges

Nighttime network tv	3/8%	-2/2%	3/9%
Daytime network tv	-5/12	-5/2	-3/12
Spot tv	2/12	-4/12	2/9
Network radio	0/20	-2/5	0/20
Spot radio	-3/9	0/2	-3.5/8
Consumer magazines	0/12	-5/2	5/12
Nat'l Sun magazines	-7/11	0/8	-15/10
Daily newspapers	2/11	-1/8	5/10
Outdoor posters	0/9	-20/2	0/30
Business publications	4/13	-1/18	-4/12

Source: Marketing & Media Decisions

Anticipated Media Cost Movements 1987 vs. 1986 (Average changes)

Medium	Unit Cost	Audience	CPM
Nighttime network tv	4.0%	0.3%	3.7%
Daytime network tv	-3.8	-0.5	-3.3
Spot tv	5.5	0.2	5.3
Network radio	5.1	0.2	5.0
Spot radio	4.4	0.4	4.0
Consumer magazines	6.7	0.5	6.3
Nat'l Sunday magazines	5.1	1.2	4.3
Daily newspapers	7.2	0.6	7.1
Outdoor posters	5.3	0.4	4.9
Business publications	6.3	0.7	5.6

Response ranges

Nighttime network tv	-1/8%	-2/3%	-1/8%
Daytime network tv	-20/7.5	-5/2	-20/10
Spot tv	0/8	-3/3	0/8
Network radio	-5/20	-3/2	-5/20
Spot radio	0/8	-0.5/2	0/8
Consumer magazines	4/11	-5/3	3/13
Nat'l Sun magazines	0/10	0/6	0/9
Daily newspapers	3/10	-2/1	3/12
Outdoor posters	0/9	-5/2	0/12
Business publications	3/8	-1/3	2/8

Source: Marketing & Media Decisions

ENTERING SOME GREY CLOUDS

Fasten your seatbelts. It's going to be a bumpy flight.

by Carol Hall

Most economists are none too upbeat in their forecasts for the latter half of 1986 and first two quarters of 1987. The weakening dollar and still-wobbly foreign trade situation, the likelihood that gas prices won't go much lower and the signs that domestic car sales are slowing again are among the reasons optimism is in short supply.

In addition, tax reform has generated a great deal of uncertainty in the economic community, fogging the fore-

caster's crystal ball and making it tough for the seer to see anything sharply. No one is sure just how the reform will look after making the transition from bill to law. And since the tax code hasn't undergone such a foundation-rocking in decades, experience can't give a clue as to how businesses and consumers will respond to the changes.

Media prices, despite some pockets of bullish activity due to targeted marketing, won't be exactly shooting skyward in the near future, all agree. The soft television marketplace is not only

affecting its own rate plans, but is casting a long shadow over the other media. Cable, for example, has no real choice but to take tiny steps to keep in step with broadcast.

The following opinions, from economists as well as media watchers, offer a range of predictions for how the economy will look in the next year and what form media costs will assume in that environment.



D. Otte

Projections at a Glance

	GNP	Unemployment	CPI	Interest Rates (T bills, 3 months)
Dorothea Otte				
Second half '86	3.4%	6.9%	3.5%	6.7%
First half '87	2%	6.7%	4.0%	6.65%
Sandra Shaber				
Second half '86	4.0%	6.3%	3.8%	6.3%
First half '87	2.4%	6.2%	3.9%	6.85%
Cary Lahey				
Second half '86	4.0%	6.7%	6%	6.5%
First half '87	4.1%	6.4%	4.1%	6.5%
Robert Brusca				
Second half '86	4.2%	6.8%	4.0%	7.0%
First half '87	3.75%	6.5%	4.5%	7.5%
Steven Malin				
Second half '86	3.7%	6.9%	3.7%	6.2%
First half '87	1.4%	7.0%	4.2%	6.2%

Source: Marketing & Media Decisions

THE ECONOMISTS' PROJECTIONS

Dorothea Otte

Assistant director of economic forecasting at Georgia State University:

"We don't see a real bright picture for the economy," moans Otte, ticking off her reasons for a cloudy forecast. Inflation is creeping up. Construction, which showed a moderate rise this year, is expected to slow down. And the falling dollar is leading to higher prices overseas and hurting exports.

We have, she says, "a trade problem we can't seem to work out," and it's one that doesn't seem likely to turn around in the near future. Aside from the fact that the effects of the shrinking dollar are taking a long time to make themselves felt, she says the economies of two strong importers of American goods, Japan and West Germany, are

weak. "They are artificially being held down by the central governments," she claims, mainly in hopes of keeping inflation at bay.

She concedes that the oil glut is a ray of sun poking through the clouds of her forecast, helping much of corporate America cut costs. It doesn't mean, she says, there will be a rush to plow those saved dollars back into the corporations — or into advertising. "With energy prices being such a large part of costs, many companies will try to widen their profit margins to make up for the lean days."

Sandra Shaber

Vice president of consumer economics at Chase Econometrics Inc.:

"Despite a fairly widespread optimism about the benefits of some recent developments," says Shaber, "the economy remains very, very weak." And, for the coming quarters, she says, though "we are still predicting a modest improvement in the second half of '86 and into '87, in the past few weeks, we have been telling our clients that the risks of much slower growth than anticipated are rising. In other words, things are not looking very bright."

She says that the notes of optimism sounded by the economic community a few months ago have, to her ear, turned sour. The positive effects of a falling dollar abroad, for instance, have taken longer than expected to be felt in the U.S. And, she adds, people overstated the positive impact of falling interest rates. She says lower rates have produced a mini-boom in housing, "but I can't think what else they've done, except drive the stock and bond markets up."

Though consumer spending was up in the first half of this year — with retailers showing increased sales, auto sales going up, and lower gas prices boosting consumer confidence — Shaber says those "boom" days are numbered. "The effect of lower energy prices is already over," sighs Shaber. "The car market is saturated; consumer confidence is beginning to waiver more. And underneath it all, the real fundamentals, wage and salary growth, are very weak — and that's what drives consumer spending."



C. Lahey



S. Shaber

Cary Lahey

Vice president/senior analyst at Shearson Lehman Brothers Inc.:

"We're seeing a continued sluggish economic outlook for this year," predicts Lahey. "While we are looking for stronger growth in the second half of 1986 — 4% in the third and fourth quarters — it's not going to be sufficient to give overall GNP growth any zip." That will leave the year, he says, with a 2.6% GNP growth rate, just over 1985's rate of 2.2%.

He predicts a 1987 GNP growth rate,

Despite widespread optimism about recent developments, says Shaber, the economy remains "very, very weak."

however, of 4.1%. Among the causes, low interest rates are an important factor. He says that will prompt consumers "to get their financial houses in order. What they're doing is converting high-cost, variable rate debt into lower cost, fixed rate debt." And, while he predicts consumers will also cut down on borrowing, he thinks that spending will heat up later this year and into next.

Citing another hopeful note, he says, "The dollar has declined about 35% against the major currencies and we think that's certainly going to help the manufacturing sector" which should lead, he expects, to an improvement in exports in the second half of the year.

Lahey says that if the tax reform bill becomes law as it exists now, "con-

sumer spending will be helped and business fixed investment and corporate profits will be hurt." It will "favor assets that generate income, not assets that shelter income so good old stocks and bonds, particularly those that generate income that can be taxed, are going to be better off. I'm saying that what you're going to get is probably a little more efficient economy, a little more consumer spending, a little less investment — but hopefully it will be more productive investment because you have a more level playing field."

Robert Brusca

Chief economist at Nikko Securities Company International, Inc.:

"I'm one of those people who think the second half of this year is going to be pretty strong. We have lower oil prices, lower interest rates, a substantially lower dollar. Now we haven't seen much impact from these things yet, but I believe they have to take effect," reasons Brusca. He's quick to qualify that, though, adding that the economy will still have "a lot of patchy spots" due, in part, to the Federal Reserve's confusion over just what it is going to do with the current discount rate.

For the first half of '87: "I'd call it an expansion, but a little bit softer. We will be in a more advanced stage of trying to arrest a budget deficit, so fiscal policy will become contractive. And we're at a fairly mature stage of the business expansion and you look for the economy to exhibit some signs of sluggishness. At the end of this year we will be four full years into the expansion, and generally that's much longer than the average expansion has been." Hardly the recession alarmist, he adds, "You just begin to look for the economy to grow at a rate that's more like its long-term rate, which means you just can't whip the old horse as much any more."

As for the effect of the tax bill, he believes that it's a wild card. "For the time being, it hurts the prospects for growth — when there's uncertainty, people tend to want to hold back and not do anything. I think it's making things weaker than they otherwise would be."

Steven Malin

Economist at the Conference Board Inc.:

Even though Malin predicts a strong second half for '86 — with growth in the 3.5% range — he asks, "Why isn't it going to be even stronger? We're amazed that the economy is as weak as it is." According to Malin, it should be stronger given what he sees are still-strong car sales and housing starts, no sign that interest rates are headed up, increasing exports and a healthy stock market.

But all that aside, dark clouds roll into view with Malin's forecast for next year. "We're not optimistic at all," he warns, predicting growth for the first three quarters to register 2.8%, fall off the map with 0%, then rise again to 1%. Among his reasons, he says, is a trade situation that should improve — but not a lot. In addition, he thinks interest rates will begin to rise.

How will the tax reform bill affect the economic picture? "We don't have a shadow of a hope of knowing what the impact is going to be. It's the first time [in decades] that we've had any true tax reform and we simply don't know how every sector of the economy is going to react to this. It's a real crap shoot."

THE ANALYSTS' PROJECTIONS

Edward Atorino

Managing director/media analyst at Smith Barney, Harris Upham & Co.:

"If I had to pick one thing, I think media costs are going to reflect inflation rates," says Atorino. "If inflation stays at zero to 3%, it's going to be hard for media to come along with 10% increases."

In general, he adds, "We think the economy is going to get better — even though now that sounds like an optimistic projection. If the economy behaves properly and some of the fallout from these mergers and consolidations stabilizes, advertisers may become a little more aggressive on brand introductions, pricing and other market share battles, though at the moment

**W. Donald****E. Atorino****K. Gruneich**

they're all just sitting on their hands."

He says the television industry will show very little increase in rates: 3.8% for 1986 and 6.5% for next year. For the station business — national, spot and local — he projects an 8% increase for 1986 as well as for '87.

Cable revenues should jump by as much as 15%, he says, by the end of this year. "Cable's not only reasonably [priced], there's a lot of unsold time. And they're starting to develop some credible numbers. It's been a chicken and egg problem," he comments. Industry consensus holds rate increases to 2%-3%.

Radio could see a rise of 10% for all of 1986, according to Atorino. "Radio, particularly network radio, is just booming." It's a result, he says, of better audience reach due to programming that increasingly segments audiences, and the increased cost-consciousness of advertisers. Next year should be as healthy as this, he says: "I think you're going to see a surprisingly strong medium."

Newspaper rates will rise 6% by the end of 1986, he states, with commensurate increases for next year. He puts magazines in the same league, with a 6% increase in '86. And though he thinks 1987 will show greater cost hikes — in the 9% range — the declining advertising expenditures by the alcohol and cigarette categories will continue to hold back any substantial increases.

Kevin Gruneich

Vice president, publishing/information analyst at First Boston Corp.:

"Certainly media pricing is going to do much better than American industry as a whole when it comes to rate increases," in 1987, predicts Gruneich. "In the first six months of '87 the indications I see are that there is going

to be some lightening up in media rates in terms of the growth we saw in 1986. But," he adds, "it's still going to be strong and I'm not seeing rates that are low single digits. You're very safe in saying that the newspaper business will, for the full year, be able to pass along

price increases of 6% to 8%."

The tax reform bill, should it become law in its present incarnation, should "be a big, big plus for the newspaper industry," Gruneich thinks. It will give it a boost, he explains, "because not only is the newspaper industry a high corporate tax payer, they don't use that much in the way of investment tax credits — so they're going to have a windfall from it." And, he adds, "their major advertisers, the retailers, are also full tax payers for the most part and you're going to have retailers with a lot more in discretionary funds."

Magazines, particularly consumer books, will probably charge 5% to 6% more for ad space and trade magazines closer to 6%-7%, he states. "Business books are going to have continued problems," he forecasts. "Their [fewer] ad pages reflect something more than a soft computer industry and maybe more than a soft economy. People are saying this is just a cyclical thing and that the business books will come out of it."

"But I think there is also something secular going on here," he continues. "You have a lot more places for businesses to advertise than you did a few years ago." He mentions the *Wall Street Journal* Report on radio, *Financial News Network* on cable, local business journals and the improved business sections of daily newspapers across the country.

William Donald

Media industry analyst at Standard & Poor's Corp.:

"Overall I expect costs to be lower in 1986 than they were in 1985, largely as a factor of the low inflation environment," Donald says. He adds that he doesn't see the tax reform bill, if it passes intact, boosting media costs

much. "For most industries it will help the bottom line, but I don't think that's a reason for media to raise prices."

Donald expects network prices to rise in the 4% to 5% range next year, with affiliates and independents able to boost theirs 6% or more. "It's a buyer's market for network tv and pretty much a seller's market" for the others.

Newspapers should continue to show strength with a 7% increase for all of 1986 and for 1987. Magazine rates, he says, will be up in the 6% range. While Donald agrees that it's gutsy of them to boost rates in a less-than-lustrous business environment, he says "they're putting in the rate increases because a lot of that volume is going to go to magazines anyway. That's pretty much the only way they can increase their earnings when ad lineage is down. There is some inelasticity there," he states. "Revlon, for example, is going to be advertising in *Harper's Bazaar* because they have to. General Motors will have to be in *Road & Track*, and Fisher Electronics will

Some media will manage to buck the trend and get good increases because, comments Donald, they are needed.

have to advertise in *Stereo Review*."

The magazine categories he expects to do especially well next year are women's and fashion, home and service books. "It looks to me as if the consumer is more interested in buying the leisure-oriented magazines over the *Times*, *Newsweeks* and *Business Weeks*." In addition, he notes, a lot of the business and general news magazines get a lot of their circulation through corporate subscriptions rather than personal orders. If businesses continue their cost-cutting ways, publishers of those books should expect

companies to circulate fewer copies through more people in the office.

Fred Anschel

Vice president and media analyst at Dean Witter Reynolds Inc.:

For the latter half of 1986, says Anschel, "network will probably be up 2% to 5%, national spot up 4% to 7%. For the first half of next year, assuming a reasonably good economy, I wouldn't look for much more. National spot will be in the 6% to 8% range, and local tv in the 7% to 10% range. For network, I continue to see 3% to 6%."

Magazines will show an overall rise of 5% for 1986, he says, up 6% in 1987. Despite ailing ad page counts for the industry, "magazines will be up modestly because they deliver a more targeted, tailored audience. They can charge more and advertisers are willing to bite and pay higher CPM's for those kinds of audiences."

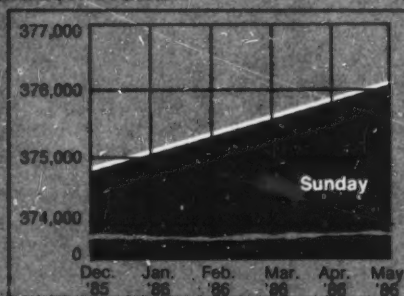
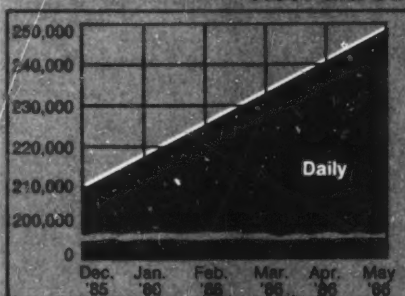
Rates won't jump into the high single-digit zone, though, for a couple of

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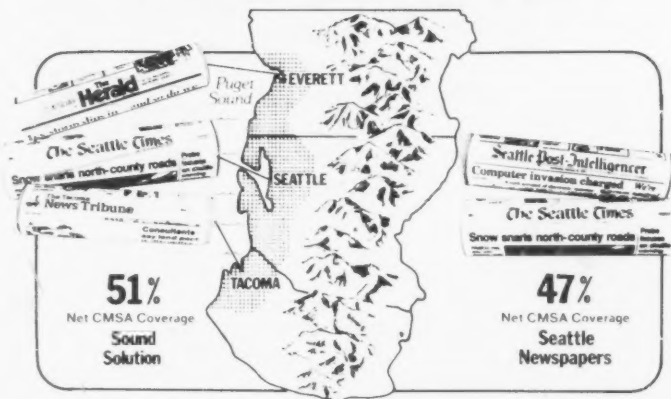
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ECONOMIC FORECAST

reasons. The low rate of inflation, he says, means "there's no justification for any significant media cost increases." There's another thing that might affect advertisers' willingness to spend. "A lot more consumer products companies, especially with mergers and the threat of takeovers, are a lot more profit conscious than they used to be. [Cutting] advertising expenditures is a good way to control your profits because, in a way, it comes right off the bottom line."

Bruce Thorp

Newspaper analyst at Lynch, Jones & Ryan:

"Advertising rate increases have been pretty modest this year because the demand isn't really there," states Thorp, saying he thinks rates will increase at a rate of 6% to 8% for the rest of this year. If demand holds steady, "I don't think newspapers will try to squeeze much more out" of advertisers next year, which would put 1987's increase in the 6% to 8% range, as well. But "if it suddenly turns out to be a hot environment for advertising, I think newspapers might try to get it up to the 8% to 10% range."

There's a reason projected increases for newspapers are ahead of inflation, as well as other media, says Thorp. "Most newspapers have about the only print game in town and they've taken advantage of that. I don't think newspapers are crying about how bad things are because they're still able to get revenue increases despite the [overall] flattening."

Thorp thinks both *USA Today* and the *Wall Street Journal* should do well next year. "National advertising is still in a slump and *USA Today* has been showing volume increases. What's going to happen when national advertising snaps back?"

Though the *Wall Street Journal's* ad lineage was down 10% in the first quarter and about half that in the second, says Thorp, if the national advertising climate improves "the *Journal* could become pretty hot again. They have added some flexibility to their production so they can offer more attractive packages to their advertisers." ■

BATES RATES CPM PERFORMANCE

Over the past decade, Ted Bates Advertising finds, the media have been giving themselves some sky-high scores.

For a number of years, Ted Bates Advertising has prepared an annual media cost trend analysis of media cost efficiencies (CPM's) for nine specific media elements. The Consumer Price Index (CPI) and the Gross National Product (GNP) serve as benchmarks for this analysis. This year's study, utilizing 1975 as a base year, will focus on the events of the past decade, 1976-1985, and estimate the increases for 1986. The report examines the relationship of media CPM's to the CPI on a yearly basis, as

well as for the decade. This analysis will clearly demonstrate that media costs have kept pace with or have grown considerably faster than inflation.

The past decade, 1976-1985, has been a period of sustained, although erratic, increases in media CPM's and inflation (See Exhibit IA). The decade began with broadcast media posting extraordinary real growth, about 20%, in several cases. Real growth has been calculated by subtracting inflationary increases (the CPI) from nominal increases. Over the next several years,

1978-1981, the CPI grew at such a fast rate that most of the media elements analyzed were unable to keep pace. During these middle years, although confronted with skyrocketing inflation, advertisers were generally experiencing negative real CPM rates. However, with the improvements in the economy and resumption of moderate CPI growth, all of the media elements examined experienced *real* growth since 1982. Television led the pack — at times posting real annual increases in double digits (see Exhibit IB).

Exhibit IA
Yearly Percent Increases in CPM

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986#
Broadcast											
Day	25	29	8	5	11	7	9	5	9	15	9
Evening	8	26	9	12	14	7	24	7	15	10	6
Spot	25	5	0	9	8	5	9	8	11	6	6
Net Radio	10	9	7	6	5	8	7	10	10	6	8
Spot Radio	12	9	5	5	7	7	6	7	7	5	5
Print											
Magazines	2	9	9	8	12	12	11	8	8	8	6
Supplements	3	19	2	9	9	11	12	5	6	4	-11
Newspapers	10	9	8	8	10	13	10	10	9	7	7
Outdoor											
Posters	6	9	11	12	10	9	11	6	9	6	5
CPI	5.8	6.5	7.7	11.3	13.5	10.4	6.1	3.2	4.3	3.6	3.5
#Ted Bates estimates											

Exhibit IB
Yearly Percent-Real Growth*

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986#
Broadcast											
Day	19	23	0	-7	-2	-3	3	2	5	11	6
Evening	3	19	2	1	0	-4	17	4	10	7	3
Spot	19	-1	-8	-2	-6	-6	3	5	7	2	3
Net Radio	4	3	0	-5	-9	-2	1	7	6	2	3
Spot Radio	7	2	-2	-6	-6	-3	0	4	3	1	2
Print											
Magazines	-4	2	2	-3	-2	1	5	5	4	4	3
Supplements	-3	12	-6	-3	-4	1	6	1	2	0	2
Newspapers	4	2	0	-3	-4	3	4	7	5	3	4
Outdoor											
Posters	0	2	3	1	-4	-1	4	3	5	2	2

*Real Growth defined as subtracting CPI % increase from media % increase.

#Ted Bates estimates

The net effect of these yearly increases can be seen in the compounded and average annual growth rate over this period (Exhibit II). Virtually every media element exceeded inflation with the exception of spot radio which matched the CPI rate with a 6.9% increase, and supplements which, at 5.8%, had the lowest increase. Network television, daytime and evening, moved at an alarming rate — almost twice the average annual CPI rate (11.9% daytime and 12.4% evening vs. 7.0% CPI). The other broadcast media, spot tv (8.2%) and network radio (7.7%), shared comparable growth rates with the print media: magazines (8.4%), newspapers (9.2%), and outdoor posters (8.5%).

Overall, the last decade was an outstanding period for the media examined. 1985 was a strong, real growth year (see Exhibit IB), although most media reported lower CPM increases than expected. 1986 is projected to follow suit with more *real* growth for all media elements except supplements.

1985

Despite falling interest rates and inflation steady at a 3.6% increase, con-

Exhibit III
Total Advertising Volume and Gross National Product

Year	Ad Volume		GNP		Ad Volume As % of GNP
	Millions	% Change	Billions	% Change	
1975	\$27,900		\$1,549.2		1.80%
1976	33,300	19	1,718.0	11	1.94
1977	37,440	12	1,918.3	12	1.95
1978	43,330	16	2,163.9	13	2.00
1979	48,780	13	2,417.8	12	2.02
1980	53,550	10	2,631.7	9	2.03
1981	60,430	13	2,957.8	12	2.04
1982	66,580	10	3,069.3	4	2.17
1983	75,850	14	3,304.8	8	2.30
1984	87,820	16	3,661.3	11	2.40
1985 (prelim)	95,070	8	3,901.0	6	2.44
1986 (est.)	102,720	8	4,168.6	7	2.46

cern over the federal deficit and proposed changes in tax laws led to a conservative economic environment. Advertisers were more cautious in allocating advertising dollars, exerting pressure on the industry to improve

media cost performance. All of these factors served to moderate CPM increases. The majority of media elements (seven out of nine) experienced increases in 1985 which were lower than those recorded in 1984.

Exhibit II
Compounded Yearly CPM Increases
Base Year 1975

	Day Net TV	Eve. Net TV	Spot TV	Net Radio	Spot Radio	Mag.	Supp.	News	Out- door	CPI
1975	100	100	100	100	100	100	100	100	100	100
1976	125	108	125	110	112	102	103	110	106	106
1977	161	136	131	120	122	111	122	119	115	113
1978	174	149	131	129	129	122	124	129	127	121
1979	182	167	143	137	135	131	134	139	142	135
1980	203	190	154	143	145	147	147	153	158	153
1981	218	203	162	155	155	164	163	173	173	169
1982	238	251	176	166	164	181	183	191	191	179
1983	250	269	190	182	176	196	191	210	203	185
1984	272	308	211	200	188	212	201	229	221	193
1985	312	341	224	212	197	229	209	245	233	203
1986 (est.)	341	361	237	225	208	242	219	262	245	211
Average Annual Growth	11.9	12.4	8.2	7.7	6.9	8.4	5.8	9.2	8.5	7.0

Exhibit IV
National Advertising Volume as a Percent of Total Advertising

Year	Total Adver. Millions	National Adver. Millions	National As % of Total
1975	\$ 27,900	\$ 7,242	26%
1976	33,300	9,017	27
1977	37,440	10,271	27
1978	43,330	11,794	27
1979	48,780	13,357	27
1980	53,550	14,837	28
1981	60,430	16,641	28
1982	66,580	18,379	28
1983	75,850	20,657	27
1984	87,820	24,102	27
1985 (prelim)	95,070	25,025	26

These economic conditions had a significant impact on the network television market in 1985. Indeed, in 1985, network revenues were down over the previous year, a phenomenon not experienced since 1971. Despite

this, the two network elements, daytime and evening, posted double-digit CPM increases.

• Daytime network tv's CPM growth rate increased from 9% in 1984 to 15% in 1985.

• Evening network tv posted a lower increase — 10% in 1985 vs. 15% the previous year.

• Spot television CPM increases declined, almost by half, to 6%.

Radio increases moderated:

• Network radio — down to a 6% increase.

• Spot radio just stayed ahead of the CPI — up 5%.

Print was a mixed story:

• Magazines remained on a steady course — rising 8%.

• Supplements, with a difficult year of mergers and switches, virtually matched inflation at 4%.

• Newspapers continued to exhibit slower growth with a 7% increase.

Outdoor's CPM increases moderated to 6%.

1986

Inflation is expected to continue its moderated trend with a 3.5% increase in 1986. Media CPM's are expected to continue to respond marginally to this fifth straight year of modest inflationary increases (see Exhibits IA, IB). Almost all media elements should experience a decline or remain fixed at the previous year's CPM increases.

Despite this response to inflation,

most media increases are still expected to be almost double that of inflation.

- Daytime network television — close to three times the inflation rate — projects 9% increases.

- Evening network television projects a more modest 6% rate.

- Spot television will repeat last year's growth rate — 6%.

Radio is expected to match last year's increases:

- Network radio — 6%.

- Spot radio — 5%.

Print, with the notable exception of supplements, adjusts marginally:

- Magazines reduce growth to 6%.

- Newspapers expect to repeat last year's rate with a 7% increase.

- Supplements should decline an impressive 11% resulting in negative real CPM rates.

Outdoor posters will again reduce their growth to a projected 5%.

TOTAL U.S. ADVERTISING VOLUME PERFORMANCE

The proportion of money spent on advertising as a percent of the gross national product continues to grow.

Advertising's share of the economy has continued to grow every year since 1976 (see Exhibit III). From 1976

through 1984 advertising volume grew at double-digit levels, consistently faster than the GNP. However, in 1985 there was a dramatic decline in growth for both, indicative of the cautious economic environment. This abatement is expected to continue in 1986 — ad volume is projected to increase 8%, GNP to remain steady at 7%.

National advertising, as a percentage of total advertising, has remained between 26%-28% and is expected to remain in that range in 1985 (see Exhibit IV). National ad expenditure increases exceeded that of the CPI for all elements examined over the course of the decade (see Exhibit V).

The advertising industry has experienced real growth in CPM's during the last decade. However, if the media continue to manifest real cost increases, while generally brand revenue growth parallels CPI increases, then advertising must assume a continually larger portion of a product's sales/profits in order to maintain the same level of advertising effort. Additionally, the quality of this advertising effort, particularly in the television medium, is possibly deteriorating due to the VCR zipping, channel switching/zapping and increased clutter due to the

rapid proliferation of 15's.

These dual pressures confronting advertisers make it imperative that these trends be carefully considered in assessing media values and options.

Leslie Wood/Debbi Ellis

*Media Information and Analysis,
Ted Bates Advertising*

FOOTNOTE Tables report trends in index form with 1975, the base year, indexed at 100. These cost estimates are based on the following units:

Network and Spot TV	30 seconds
Network Radio	30 seconds
Spot Radio	60 seconds
Magazines	one page/four color
Newspapers	milline black and white
Supplements	one page/four color
Outdoor	100 showings through 1981 50 showings 1982-86

Demographic: CPM's are based on:

Day Network	Women 18 +
Evening Network	Total Persons 2 +
TV	TV Households
Radio	Persons 12 +
Magazines	Circulation
Newspapers	
Supplements	
Outdoor	Total Population

Sources for audience information are:

Network and Spot TV	A. C. Nielsen
Network Radio	"RADAR"
Spot Radio	Arbitron
Magazines	Magazine Publishers Assn
Newspapers	Newspaper Adv. Bureau
Supplements	Standard Rate and Data
Outdoor	IOA and estimates

Advertising expenditure and GNP data are from the Television Bureau of Advertising. Figures for 1986 are Ted Bates' estimates. The CPI is based on increases in yearly average compiled by the Conference Board.

Exhibit V
National Advertising Expenditures
(1975 = 100)

Year	Net TV	Spot TV	Mag	News/Supp	Radio	Outdoor	CPI
1975	100	100	100	100	100	100	100
1976	124	133	122	121	120	115	106
1977	150	136	148	133	132	132	113
1978	172	161	177	139	148	140	121
1979	199	177	200	160	160	161	135
1980	222	201	215	177	185	165	153
1981	242	231	241	204	214	190	169
1982	269	269	253	221	227	211	179
1983	304	297	289	247	257	233	185
1984	370	338	337	278	292	255	193
1985	360	367	354	298	324	273	203

WHAT A DIFFERENCE A

Television's robust rate hikes of the past are being tempered by the

by *Marianne Paskowski*

This was the year network television executives learned that the slowdown in corporate profits had finally begun to erode their own bottom lines.

The 1985-86 television season may well go down in the books as the year that advertisers seized a semblance of control over costs. While all three networks had glided through 1983 and 1984 with advertising rates rising annually in the double digits, the profits of their customers, the Fortune 500 companies, by contrast, rose a scant 1.1% from 1983 to 1985.

Last year, however, corporate America's woes became network television's. Clearly 1985 was not a good year for network television, which saw revenues drop 3.4% from \$8.55 billion in 1984 to \$8.3 billion. National spot tv, by contrast, fared better, with advertising revenues up 9% from \$5.5 billion to \$5.95 billion.

And the upcoming 1986-87 television season — so far — looks like more of the same. Network sales for 1986 remain sluggish, and most industry observers, including McCann-Erickson's Robert J. Coen, senior vice president and director of forecasting, predict that the year will show only a slight improvement over 1985 for the networks. Reflecting the weaker outlook, Coen revised and lowered his estimate of growth in network television advertising this year from 6% to 4%.

One week to the day following Coen's revised downward projections, CBS announced that it would be reducing its forces by 700 employees. The news came after a two-month review of all broadcast operations in response to changing marketplace

conditions. "The broadcast industry must respond to an economic environment of long-term disinflation and stable but slow growth," said Gene F. Jankowski, president of the CBS/Broadcast Group.

Many analysts agree and predict that the network economy, at least for the near term, will not grow much beyond the current rate of inflation, 3%-4%. "The pricing leverage the networks had in the late seventies and early eighties is eroding," explains Mark Riely, broadcast analyst at Eberstadt Fleming. "Network tv is not a pure oligarchy anymore," he continues, alluding to the rise of independent stations, networks and syndication alternatives. "And the presence of cable and barter will prevent the networks from getting that leverage back."

Nor will network television be the only broadcast sector to feel the crunch. Advertiser-supported syndication and national spot tv activity are slowing down as well. While the national spot tv sector was quite robust, up 12% for the first quarter of 1986, McCann's Coen does not expect that boom to continue. Already the market showed signs of erosion in the second quarter.

Some media observers foresee a rocky road ahead for spot tv. "The networks are the cornerstone of price increases for all broadcast media, and when network is soft, then spot tv prices will go soft as well," advises Jerry Cohn, chairman and chief executive officer of Bohbot & Cohn, a



seven-month-old media buying service which places the bulk of its \$100 million in billings in national spot tv.

"The second quarter has not materialized," gripes Peter Galazian, president of the Katz Television Group, which has among its clients the Fox Broadcasting Station Group. Galazian, too, has toned down his year-end spot projections, expecting 1986 to end only 8% ahead of 1985, compared with his more optimistic earlier projections of a 9%-10% rise.

In keeping with the lukewarm economic forecasts, media directors, too, are playing it safe, planning on slight to moderate increases for all television buys. Most buyers were reluctant to

YEAR MAKES!

harsh realities of the economy and the broadcast marketplace.

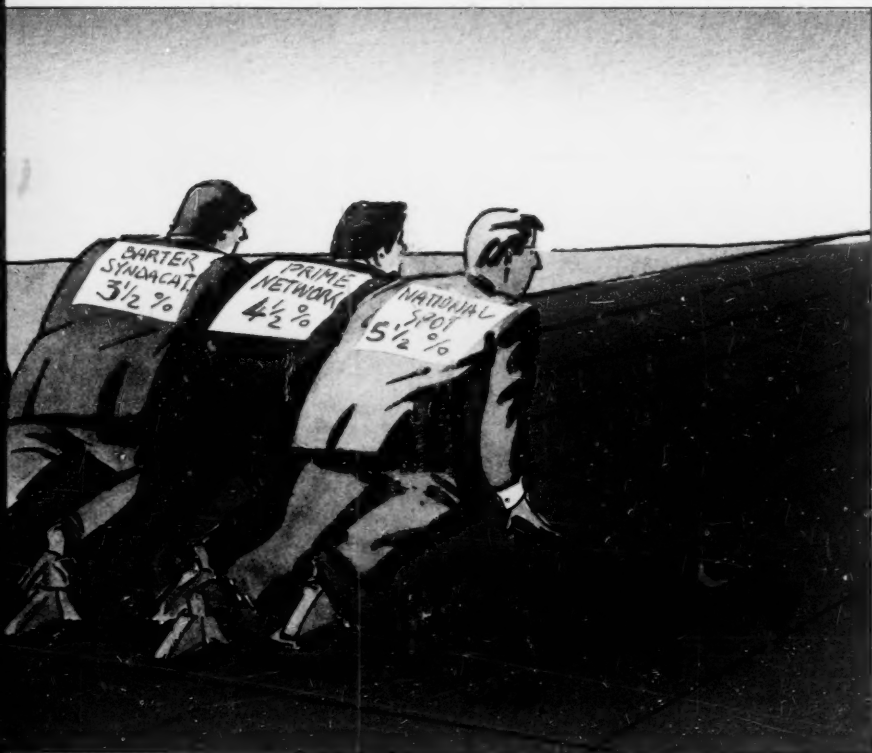


ILLUSTRATION BY ANDREA BARUFFI

hazard a guess as to what future scatter markets may hold in store.

However, *Marketing & Media Decisions'* yearly survey of anticipated media costs found that buyers were planning on relative rate relief for the following year. For network prime time, anticipated CPM changes averaged +3.7%; for network daytime, -3.3%; and for national spot tv, +5.3%.

NETWORK OUTLOOK

At press time, negotiations for prime time television had begun in earnest, with NBC, the number-one network, expecting to mop up nearly \$1.3 billion in prime time business by the fourth of

July. That left CBS and ABC to duke it out for the remaining \$900 million to \$1.1 billion that buyers estimated was the size of the rest of the market.

Negotiators, including DFS/Dorland Worldwide's Mel Conner, senior vice president and director of network operations, expected NBC's success in prime time to cause "a real dogfight between ABC and CBS to get that money." For an agency to buy on ABC or CBS, Conner noted, "you either have to get a terrific mix of programs or a very low, or no increase at all rate."

Most upfront buyers expected to pay well under 5% CPM increases on ABC and CBS, and 5%-7% increases for

NBC's inventory. NBC earlier had floated out offerings asking for 16%-20% increases. Only its top-rated shows like *Cheers* and *Family Ties* got that type of heady increase. The real bellringer for the network, though, is *The Cosby Show*, which didn't lack for takers despite a 40% rate hike. On average a 30-second spot in *Cosby* now costs \$350,000-\$400,000.

But perhaps the biggest and most pleasant surprise in this go-round of negotiations was the huge discounts the networks granted to upfront daytime advertisers in early June when the market finally broke loose. On average, daytime CPM's were 10%-20% lower than last year's upfront prices. These bargains were not lost on buyers who quickly responded with signed contracts. An estimated 80% of the daytime market, representing about \$600 million, had moved by the Fourth of July weekend.

"This was daytime's corrective year," explains Jake Keever, Capital Cities/ABC Television Network's executive vice president of sales. ABC, which is number-one in the daytime race, is believed to have captured about 50% of the total daytime dollars already.

With network daytime's double-digit price increases over the past three years, Keever concedes that "daytime really overpriced itself." Buyers this season who got the high end of those discounts — 20% — got it "because they overpaid last year," adds one media director.

The networks' strategy, some buyers say, was to unload daytime inventory at bargain-basement prices in order to tighten the subsequent scatter markets. "It made more sense for the networks to give big discounts upfront rather

than to repeat what they ran into last year, which was pricing the time 30%-40% under upfront prices," explains one buyer. "That annoyed the upfront advertisers, that someone could come in at the last minute and get such tremendous deals," he explains.

But no one really expects those kind of deals in future scatter markets, says Richard Kostyra, J. Walter Thompson/USA's senior vice president and media director. "We were making a lot of deals at double-digit percentages below upfront, and there won't be much room for that now," he notes.

Looking ahead to the fourth-quarter scatter market and beyond, buyers were wondering what all of this upfront activity would mean on future pricing. "We really don't know yet," admits David Lerner, vice president of broadcast, F.C.B./Leber Katz Partners. "We are trying to track this and we already see that daytime in the third-quarter scatter market is tightening up," Lerner points out.

Over at Needham Harper Worldwide, Wes Dubin, senior vice president

and director of broadcasting, was trying to get a handle on scatter conditions as well. "The scatter prognosis is rather bleak, but that might turn around in fourth quarter," says Dubin.

While sellers hope that 1986's books are a better read than 1985's, they nonetheless are braced for a tough go. With a less-than-robust economy, and no new money coming into the marketplace from new product categories, coupled with increased inventory resulting from the stand-alone 15-second commercial, the going certainly won't be easy.

Tough as it is, ABC's Kever feels that things are not as bad as they could be. "We have plans for about 50 of the 100 upfront advertisers," he noted during the beginning of upfront negotiations, "and looking at the levels that they spent last year and what they will be spending this year upfront, we actually expected they would be down more."

"We thought buyers would want to save more money for the scatter market," Kever continues, "but the plans

were not *that* bad. They actually decreased their total spending levels by less than 2%." However, Kever does not expect to see any real improvement until the second quarter 1987.

At first-place NBC, the tone is decidedly more upbeat. "We did fairly well in upfront and I expect a strong scatter market," notes Robert Blackmore, senior vice president of sales, NBC Television Network. "This is the year for advertisers who want to differentiate their brands to take advantage of the disinflation. The media are fairly priced," he adds.

Another unknown in terms of network pricing during the upcoming year will be just how popular the stand-alone 15-second unit becomes. Currently the units are sold on all three networks, in all dayparts, for half the price of a 30-second spot.

Most buyers do not envision the networks as being in any position to get a premium for the unit, because demand, they feel, is not yet high enough. The networks, for their part, seem leery about the unit which has

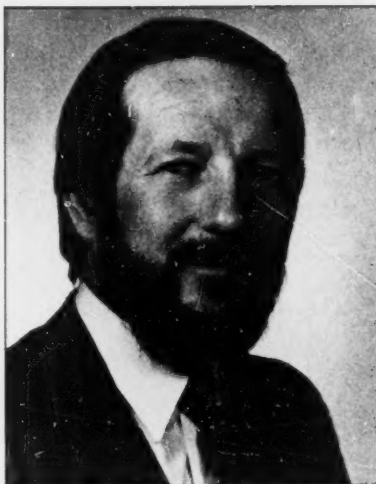
A CONVERSATION WITH RICHARD KOSTYRA

Richard Kostyra is senior vice president and media director for J. Walter Thompson/USA. Last year Kostyra held the honor of being the only media director interviewed by Decisions to accurately predict that television pricing for 1986 would be flat or possibly down. Here's what he has to say about 1987.

On the network outlook: I see budgets flat or down for next year. While advertisers made upfront commitments, there will be larger portions set aside for scatter. I see the scatter market continuing to be soft, but not as soft as this year.

We were making a lot of deals at double-digit percentages below upfront in the scatter market this past year. Next year, however, there will not be that much room for that kind of deal.

Sports will be stronger next year but all other dayparts will soften. Sports will firm up because of the increased



pressures on prime time, which are caused by 15-second advertisers moving out of daytime into prime. Furthermore, there is a reduced number of prime time shows that appeal to males. All of those things will improve the sports outlook.

On syndication: Syndication may be hurting a little bit more than network. The upfront for syndication was slower paced this year, and much more spread out. Deals were signed, and we signed several, but only after we got the syndicators down to an appropriate CPM. That happened after we realized the networks would be flat or down.

On spot tv: Spot sellers are in a rare position. They have the opportunity to dramatically increase their revenue by providing the 15-second unit at 50% of the price of a 30-second commercial. That is something they currently don't do. If spot continues in that mode, the market will be down or flat.

If spot :15's do not come down, I see a lot of money shifting from spot to syndication or network. Advertisers want their :15's, but will not pay 75% of a :30 to get them. The danger is that once the money moves from the local market, it never comes back.

served only to increase their inventory in a tough market.

ABC's Keever, for one, does not sound too elated about the prospect of :15's on his third-place network, but says ABC had no choice because of CBS' earlier move to accept them. "We had canvassed the marketplace and found \$2.2 billion in split-30, or :15 budgets that would have gone to CBS," he explains.

Another shadow on the networks'

horizon is a battle shaping up involving audience measurement. A. C. Nielsen has delayed until next year the unveiling of its people meter, which will compete head on with AGB Television Research Inc.'s similar measurement device. Next spring, odds are network television negotiations will be done with one of those two systems. This year, upfront guarantees were still based on the diary. The networks now have one year to work with the two

measurement services.

At question is just how large is the television audience and whether or not advertisers have been overcharged over the years. Early tests by both systems have shown that prime time network viewing is roughly 10% lower than what had been reported in diaries. Sources say this suggests that either the diary has been inflating network viewing all along, or that the people meter is somehow flawed.

"We will have some selling challenges," predicts one network executive. "It is possible that we will have to sell at a higher CPM to deliver the same amount of people," he states. "And buyers in turn will say, 'But I'm getting less people.' Actually, it's like devaluating currency. The advertisers will get the same audience; it's just being counted differently," he says, clearly not looking forward to this battle.

From the buyers point of view, not many clients will be willing to pay CPM increases when the people meter audiences appear smaller. Agencies just prior to upfront had beseeched Nielsen to roll out the meter for this season's negotiations, but Nielsen delayed the launch by a year.

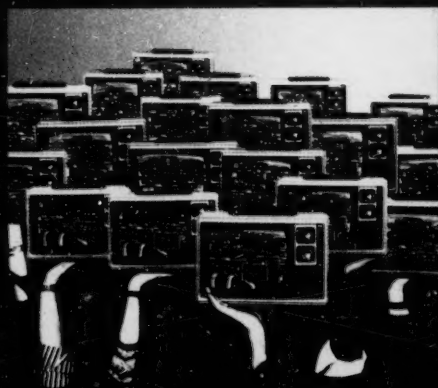
"The agency can say it won't pay if the networks try to inflate CPM because of the meter," says DFS/Dorland's Conner, "but the network will say, 'If I lose 5%-7% of my inventory because of the new people meter, then I'm going to have to factor in another 5%-7% before I even start to talk about increases.' So before you know it, the increase will be 12%," he adds.

But, if the networks try to get too much, Conner says syndication and cable, whose numbers he expects will rise with the people meter, will definitely get its money.

SYNDICATION

With barter syndication prices so closely tied in with the fates and fortunes of the larger network tv scene, many buyers anticipate that barter, too, will only get CPM increases in the 0-5% range next year. And they may not even get that.

"Barter prices are pretty limited by the network environment," notes

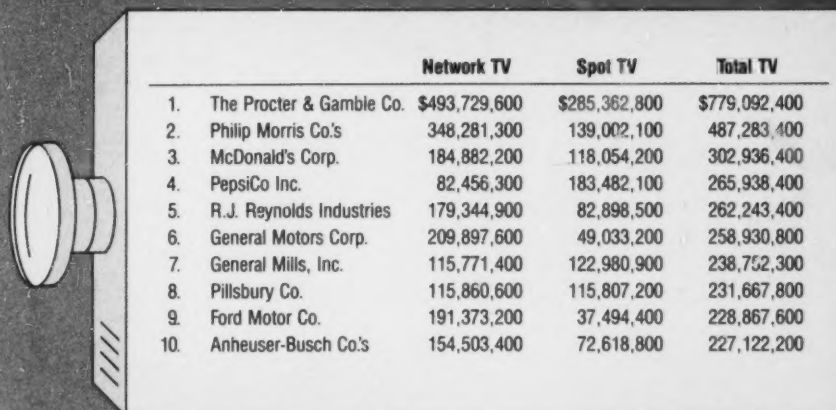


From the moment the first telecast made its way into a handful of living rooms, audiences were entranced, entertained and enlightened. Now, television is in nearly every household. Viewers receive more channels and have more choices than ever before. Television. It's the media choice that reaches 98% of all households. That's why advertisers invest a whopping 21 billion dollars each year. How do we know? We've been watching audiences watch TV since 1949—longer than anyone. And, as the medium and the audience grow and change, so do we. Developing new ways to define and describe who they are and what they watch. Arbitron. We know the territory.

ARBITRON RATINGS

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TOP 10 TELEVISION ADVERTISERS 1985



		Network TV	Spot TV	Total TV
1.	The Procter & Gamble Co.	\$493,729,600	\$285,362,800	\$779,092,400
2.	Philip Morris Co.'s	348,281,300	139,002,100	487,283,400
3.	McDonald's Corp.	184,882,200	118,054,200	302,936,400
4.	PepsiCo Inc.	82,456,300	183,482,100	265,938,400
5.	R.J. Reynolds Industries	179,344,900	82,898,500	262,243,400
6.	General Motors Corp.	209,897,600	49,033,200	258,930,800
7.	General Mills, Inc.	115,771,400	122,980,900	238,752,300
8.	Pillsbury Co.	115,860,600	115,807,200	231,667,800
9.	Ford Motor Co.	191,373,200	37,494,400	228,867,600
10.	Anheuser-Busch Co.'s	154,503,400	72,618,800	227,122,200

Source: Television Bureau of Advertising

HAYES COHEN

Eberstadt-Fleming's Riely. "And syndicators typically sell at a discount to the network. So in this very weak network environment, you won't get much in the way of price increases for barter, if any. If the network is discounting itself at 20%, there is no real need to turn to barter," he logically points out.

And that is the scenario which indeed unfolded in the upfront barter and network daytime marketplaces. With network upfront daytime slashed to move, advertisers saw little reason to turn to barter. "Some of the syndicators are really hurting," notes FCB's Lerner. "When buyers got their 20% discounts on daytime network, they did not even bother with syndication."

The syndicators seem worried that perhaps barter's competitive edge may be getting a little rusty. "I wonder if some of the advertisers might be a little short-sighted now, by taking the best bargains with a very soft network," asks Dan Cosgrove, this year's president of the Advertiser Syndicated Television Association and vice president of media sales for Group W Productions. "Advertisers should be aware

that this might eliminate an alternative that has kept a rein on network pricing," Cosgrove adds.

As ASTA's president, Cosgrove estimates that barter will finish the year at \$600-\$650 million. While daytime was extremely weak for barter syndicators, the kids' market was extremely good, and other dayparts "seem to be somewhere in between," he explains.

One of Cosgrove's biggest concerns is that he expects that syndicators will not want to continue to program unprofitable dayparts, like daytime. Cosgrove, too, expects to see less barter inventory overall in the marketplace next year, as many companies switch from an all-barter base to a barter/cash, or pure cash arrangement with stations. LBS Communications and TPE have already announced their plans to form cash divisions.

Ric Levy, president, Camelot Entertainment, which is the sales arm for King World's *Wheel of Fortune* and *Jeopardy*, sees a smaller barter inventory next year as well. "Fewer syndicators will be concentrating on all barter shows. They can't make it on a pure barter business, which is 100%

dependent on demos and ratings. Unless they have extremely cheap shows to produce, they need the cash from the license fees," Levy advises.

All told, that might make good business sense for syndicators. "This was very much a testing year in the syndication business," Levy adds. "More shows than ever were carrying barter spots and the competition for those dollars was and is fierce."

For example, Levy, who sells the barter time for the widely acclaimed *Oprah Winfrey Show*, wound up only getting \$14,000 per 30-second spot, rather than the \$17,000-\$20,000 he had originally hoped for. Other shows with high price tags, like Worldvision's *Throb*, which is priced at \$40,000 per 30-second spot, have found few takers.

For the upcoming year Levy expects that single-digit CPM rate increases will be the rule rather than the exception, even for established shows like his own *Wheel* and Paramount's *Entertainment Tonight*. Unit costs, if ratings are higher, may rise as much as 20%-30%, according to Levy.

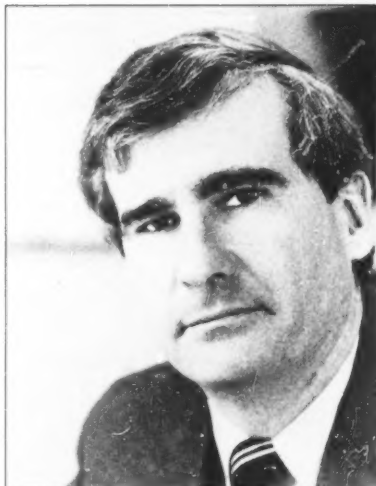
If there's a bright note to the barter story, it's the emergence of the people

meter, which may work in barter's favor. In initial results from the people meter, syndication numbers are higher than posted in Nielsen's diary. "That's because independent tv stations score higher on the people meter, and indies carry a lot of our programing," explains ASTA's Cosgrove.

NATIONAL SPOT

Buyers were expecting CPM increases to average 3%-5%, pretty close to what sellers were hoping for, about 4%-5%, depending on the market.

"Any station, most likely NBC stations, which have growth in tv households will get the better CPM" notes Katz's Galazian. He also points to another factor which is having an impact on pricing in certain markets. In growth markets like Pittsburgh, Orlando, Fla., and Boston, he specifically cites, demand for local spot tv is putting pressure on the national spot inventory. Consequently, stations in those markets will get a higher CPM, Galazian advises.



"...advertisers might be a little shortsighted..."

Dan Cosgrove
Vice president, media sales,
Group W Productions

But some sources envision that the cheapening network inventory may cause some advertisers to reduce national spot tv budgets. "With network prices going down," begins Hal Katz, executive vice president of Vitt Media International, a media buying service, "I would expect that some of the advertisers who traditionally use extensive spot lists would go in on network scatter buys."

One area where buyers expect prices to be higher than the average 3%-5% increase for spot tv overall is in the kids' marketplace.

Independent tv stations, which run a lot of syndicated children's fare, do not prescribe to the old National Association of Broadcasters code and its stringent guidelines on children's advertising. While the code has been abolished, the three networks still abide by it. Consequently, many marketers find it more attractive — and easier — to advertise their products in the syndicated fare.

"The kids syndication marketplace is already sold and the networks [which are not] are not delivering the kinds of kid audiences they used to because of the popularity of the action-oriented barter fare," explains Cohn of Bobbot & Cohn. This media buying service buys a lot of spot tv for 70 toy companies through client Toys R Us. Therefore, with the national barter time sold out and demand low for network kids programing, demand, reasons Cohn, will be higher for the local ad time in those shows.

And of course, the people meter will ultimately affect national spot tv sales as well. Will affiliates fare worse than indies, who say that the diary underestimates their audiences? "The numbers," answers Vitt's Katz, "have always been overstated in the sweeps for spot, so we will probably see some depressed numbers [for affiliates] which will affect negotiations just like network," he advises.

But Katz clearly seems to look forward to that day. Summing up what many sellers and buyers seem to be thinking about media costs, Katz concludes, "these are interesting times we live in, and that's a Chinese curse." ■

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RATE CONSENSUS: "IT'S A DISCOUNT STORE"

Try as they might, cable has to look elsewhere to up revenues.

by Alan Breznick

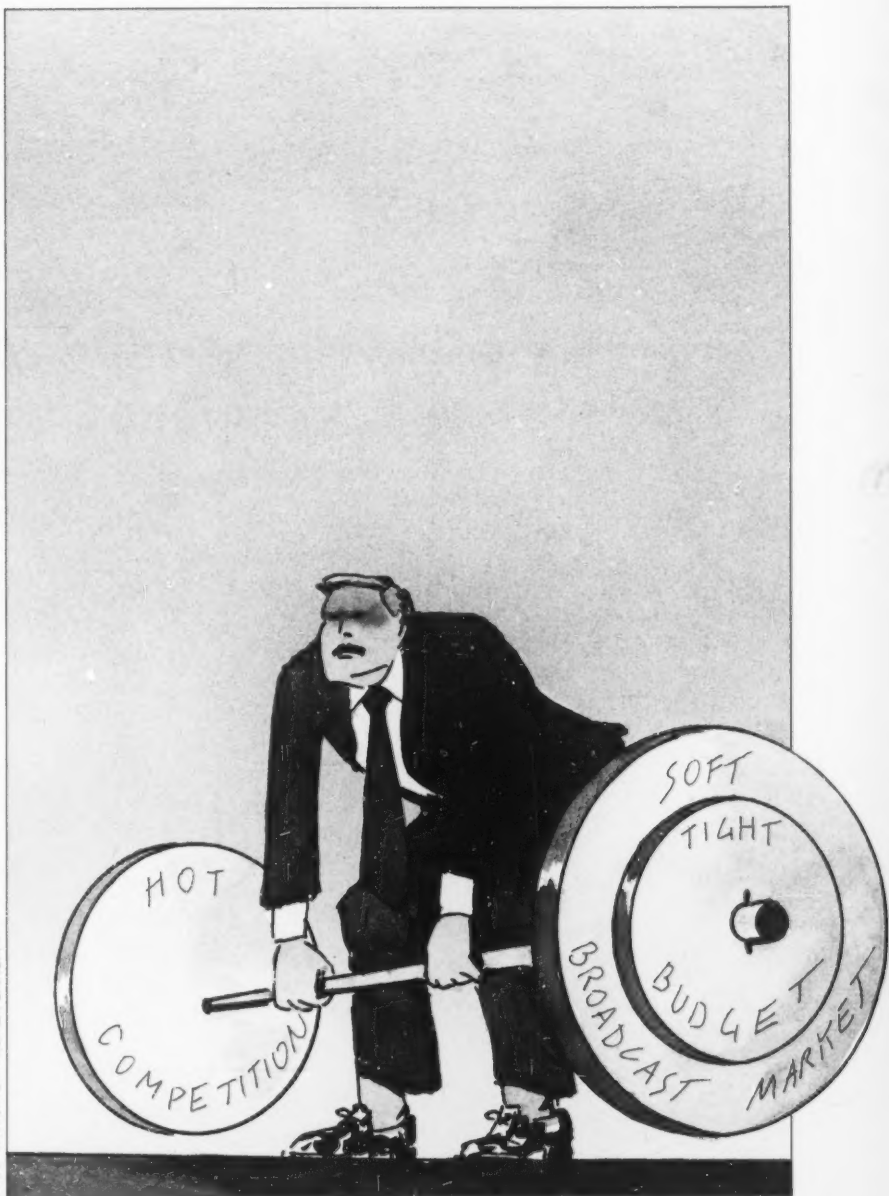
Whatever growth the cable industry experiences next year — and most remain hopeful revenues will grow — it won't come on the strength of rate increases.

Instead, industry experts foresee national and local cable ad revenues climbing, though not as fast as in years past, because the cable networks will sell out more inventory and make subscriber increases and ratings gains during the coming months. Such developments may lead to slightly higher ad prices for a few isolated segments and the chance for more systems to sell more local ad avails.

Ad executives, cable marketers, analysts and other observers interviewed by *Marketing & Media Decisions*, however, say cable's overall CPM rates will generally rise no more than a 2%-3% in 1987, continuing this year's pace. That is, if they rise at all.

"Cable will suffer a little bit," warns Paul Isacson, executive vice president of Young & Rubicam, who predicts CPM's will fall by at least 10% in 1987. "It's a tough market right now," admits Doug Greenlaw, vice president of sales for CBN Cable. "Everybody's out there scrapping for business." Laments Whitney Goit, vice president of ad sales and marketing for Arts & Entertainment, "It's a dollar a holler. Cable is a discount store."

Experts cite several reasons for the ad rate slump, which began in 1985. First and foremost, they note the con-



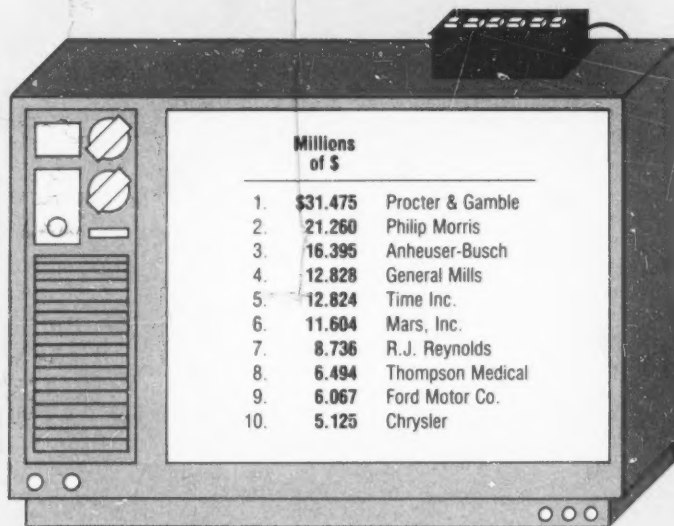
tinuing softness of the economy and the broadcast advertising market, which sets the standard for cable.

"Cable ad rates are just tied in absolutely directly with the cost of broadcast time," explains Ron Kaatz, U.S. director of media concepts for J. Walter Thompson. "A weak broadcast market leads to a weak cable market." Kaatz sees cable CPM's going up "very marginally," if at all, in 1987. Even a 2% increase, he predicts, will be "hard to justify."

Jim Cunningham, executive vice president of F.C.B./Leber Katz Partners, is less generous. With broadcast daytime and barter syndication rates in decline this year, he says, "there's no reason at all for cable to go up." He forecasts that cable CPM's will stay flat or dip 5%-10%.

Some basic cable services have contributed to their dilemma by slashing rates in heightened competition with each other, independent stations and barter syndication, and as more networks become measured, that compe-

Top 10 Cable Advertisers 1985



Source: PKA analysis of Broadcast Advertiser Reports data.

A CONVERSATION WITH RON KAATZ

Ron Kaatz is U.S. director of media concepts for J. Walter Thompson in Chicago.

On the broadcast/cable tie-in: Cable ad rates are just tied in absolutely directly with the cost of broadcast time. Cable strengthened the tie-in by stressing itself as a supplement to broadcast tv. So a strong broadcast market leads to a strong cable market and a weak broadcast market leads to a weak cable market. It's supply and demand.

On protecting the message: Advertisers are more and more concerned today with making sure the message gets communicated to consumers, not zapped off. So cable should look at different placement of ads. Rather than run any commercials together, they should put together more compatible commercials, have live lead-ins and viewer incentives. Try different things so the advertiser knows the cable op-



erator is trying a little harder.

On dial positions: I think the cable systems are not maximizing the potential of selling cable. Low dial numbers should encourage people to flip-flop

(between cable and broadcast networks). Put news and weather channels together. Put Arts & Entertainment next to PBS. Cable operators should be oriented towards the way the consumer thinks rather than the way a cable operator thinks.

On growth areas: The greatest potential is with the local advertiser. If I were a local operator, I'd be putting 99% of my efforts into selling local rather than national advertisers. Local advertisers are now spending a fortune on shoppers and other media.

On the people meter: It won't be the answer. There's still a lot to be done with it. It will be a long time until the people meter can help cable.

On rate projection: Cable CPM's will go up marginally, if at all. Maybe a couple of percentage points. That's even hard to justify.

tition will only intensify. With the addition of the Arts & Entertainment Network at the beginning of the year, there are now 13 cable networks on the Nielsen meter, each vying for a piece of the stagnant tv marketplace. And a few more, most notably VH-1, Black Entertainment Television and The Discovery Channel, are on their way.

Broadcast's shadow looms large over cable in still other ways. Cable ratings, which, with some exceptions,

have shown little improvement over the last year, are still a mere fraction of broadcast's. The net result, of course, is a chill on rates. "I can't see how you can ask for more until the numbers get better," comments Don Olson, head of Electronic Media Consultants.

Larry Gerbrandt, an analyst for Paul Kagan Associates, argues that cable CPM's will only start to rise when the cable networks begin selling out 70%-80% of the ad inventory. In 1985, ac-

cording to a Kagan analysis of Broadcast Advertiser Reports data, the top six cable networks (ESPN, CNN, WTBS, USA, CBN and MTV) averaged no better than 67% sellout ratios. And that high came in the fourth quarter, traditionally the strongest period for broadcast and cable ad sales.

Still, while most cable options labor under such constraints, there are exceptions. Some networks plan to boost unit prices 10%-15% for programs that scored well with advertisers and upscale viewers. ESPN, for example, already plans to hike rates for its expanded golf and tennis coverage in 1987 after netting increased ratings and sellout ratios on both sports earlier this year.

"I don't think you're going to have Magic Mountain jumps in cable, or any other media, in the next period," observes Burt McHugh, senior vice president and director of cable tv for Doyle Dane Bernbach. "But you will have more segments of cable doing well."

A few networks also may be able to command higher CPM's because they just went on the Nielsen meter. Arts & Entertainment, for instance, has been making "modest gains" in unit prices since debuting on the meter earlier this year, Goit points out.

Local cable advertising, which has become the industry's fastest growing segment, may be able to continue its more bullish performance in 1987. "Local cable advertising is holding up a lot better than national advertising," observes Robert Alter, president of the Cabletelevision Advertising Bureau (CAB), an industry trade group.

Robert Williams, president of National Cable Advertising, a New England ad rep firm, explains why. He says the typical local retailer — "the guy who wouldn't know a cost per point or a CPM if it crashed down on him" — is tuning in to cable because it's more affordable than tv and offers more precise market coverage than broadcast. "I think systems are finding that cable is very valuable to these people," Williams says.

On the other hand, Williams concedes, some local cable prices may flatten under pressure from larger advertisers who use broadcast and

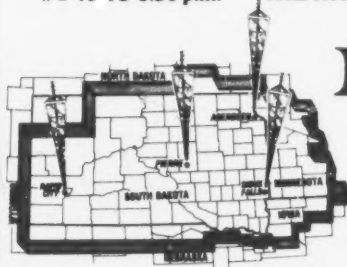
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#1 ADI S/O-S/O
#1 ADI Late News
#1 ADI Late News
#1 ADI CBS
#1 ADI CBS
#1 APN 3-6:30 p.m.

Total Households, Mon.-Sun.
Women 25-54
Total Households, Mon.-Fri.
Women 25-54
Total Day
Late News
Total Households, Mon.-Fri.

41 share
44 share (tie)
55 share
61 share
41 share
55 share
40 share (tie)



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KDLO-TV, KPLO-TV

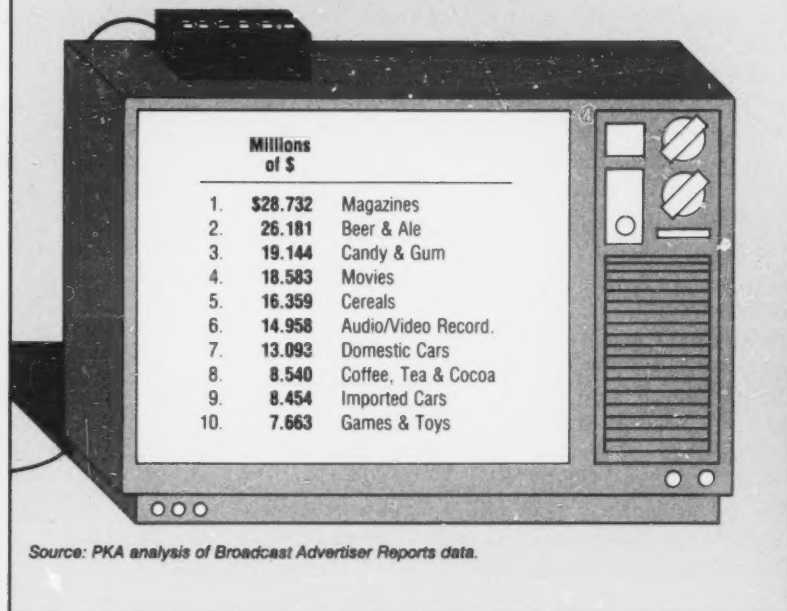
Source: Arbitron Sweeps, May 1986

Above estimates include time slots and demographic information in equal facilities markets as analyzed by TV Radio Age. Survey data estimates subject to usual qualifications.



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Top 10 Product Categories on Cable 1985



therefore measure cable by the same ratings and reach standards. "The tools for assessing the demographic wonderfulness of cable do not exist," he laments. "The tools just measure how many eyeballs you reach." Williams says he's looking for 5%-to-10% rate hikes for local cable advertising next year.

David Kelly, director of ad sales for Philadelphia rep firm Cable AdNet, paints a similar picture. He says local ad rates should increase no more than 10% next year.

Despite the chilly atmosphere surrounding rate rises, Paul Kagan Associates projects that cable network ad sales will jump 21% to \$761 million this year, following a 29% rise to \$628 million in 1985, from gains in subscribers and in ratings, strong local ad sales and improved unit sales. The 1987 forecast calls for an 18% increase to \$895 million.

Kagan predicts that local cable ad revenues, which skyrocketed 62% to \$139 million last year, will increase 35% to \$187 million this year. In 1987, local ad revenue is projected to go up another 35% to \$252 million, putting

total cable ad sales well over the \$1 billion mark for the first time.

But these figures have been revised downward from earlier, more optimistic projections. In addition, Kagan and CAB data show that cable's share of the total tv advertising pie continues to lag behind the medium's share of the viewing audience. In 1985, according to Kagan, cable's viewing share stood at 8.9% while cable ad revenue trailed at 7.6%.

Basic cable's viewing share did nose up slightly during the first quarter of 1986, driven by the success of Nashville, CNN and Lifetime, according to Nielsen estimates. And basic cable penetration rose to 47.4% of all tv homes in May, up from 45.3% a year earlier, Nielsen reports.

But the cable industry remains concerned that its growth curve may be flattening out sooner than anticipated. Officials fear that advertisers will not step up their commitments to the medium unless subscriber and ratings growth pick up more speed.

As a result, network and system officials are focusing on ways to boost ratings and viewing shares. Most no-

tably, officials are talking about creating "punch-through programing" that would lure major audiences to basic cable for the first time. Such programing would include NFL football, the Olympics, major movies and comedy and drama series that now air first on broadcast.

Speaking at the April CAB conference in New York, John Sie, senior vice president of Tele-Communications Inc., America's largest cable operator, said operators are willing to



"Local cable is holding up a lot better than national advertising."

**Robert Alter
President,
Cabletelevision Advertising Bureau**

reinvest their profits to come up with programing that could generate 10 and 20 ratings. Sie, whose company has made noises about starting its own advertiser-supported service, suggested that an industry-wide monthly rate increase of \$1 could create a \$500 million pool for new programs and greater audience promotion.

Industry officials have also placed greater emphasis on tune-in promotion

by operators. The CAB has coordinated the development of a monthly tune-in kit that pulls together audience promotional materials from all of the basic services. As of late June, over 400 systems had signed up for the kits which include more than 100 ready-to-use print ads each month. CAB officials also planned weekly satellite feeds of tune-in announcements for cross-channel promotion.

"I think this is the year of the industry tooting its own horn with system-specific and program-specific promotions," says National Cable Advertising's Robert Williams.

Cable marketers are also pushing multi-set hookups and improved dial position for cable networks as ways of boosting cable ratings. Alter says studies have shown that both tactics improve ratings dramatically. "We know we can increase ratings and share by over 100% if we hook up the second and third sets [in a household] to cable," he says.

Some are still counting on the people

meter, now in the testing stages, to solve cable's perennial numbers problem. They contend that the devices, if and when they replace the current meters, diaries and telephone coincentals, will finally do justice to cable's reach among targeted, upscale consumers.

But few hold out the prospect of the people meter coming to cable's rescue before 1988 or 1989, at the earliest. "There's still a lot to be done with it," Kaatz cautions. "It will be a long time before the people meter helps cable."

Locally, a number of systems are turning to another measuring technique — the new Nielsen Cable Audience Profile (CAP) — to garner the detailed ratings and demographic information that larger advertisers and their ad agencies demand. Mary Lennon, a marketing associate for Nielsen's Home Video Index, says 50 to 100 of the 700 potential systems and interconnects have signed up for the semi-annual reports, which give network scores for each system. "It's hard to

get good local research at an affordable price," Lennon says. "You can't do meters for every cable system."

Critics argue, however, that the numbers are still not fair to cable because of Nielsen sampling problems. "We're concerned about the validity of some of the data," the CAB's Alter notes. "We think it continues to understate cable."

Several cable marketers believe that cable might do better on Madison Avenue if it chucked the numbers argument altogether. "Just when I heard that Madison Avenue was accepting the qualitative [audience] argument and was willing to buy on those terms, we're saying that we finally have the numbers," notes Kelly of Cable AdNet. "And I don't know how good they are."

Kaatz agrees. "You need all the numbers and ratings," he says. "But you also need to constantly reconfirm values of cable from years ago. You can't just sell yourself as a CPM medium." ■

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NETWORK'S HOT BUT SPOT IS NOT

by Marianne Paskowski

Talk about contrasts. The radio industry, already tough to get a handle on with its 21 networks and 8,000 local radio stations, is emerging as the medium with the biggest extremes in pricing.

On the one hand, network radio, with its hard-to-beat efficiencies, may very well turn out to be the media all-star of 1986. In 1985 the emerging medium grew 21%, boasting ad revenues of \$329 million compared with 1984's total of \$288 million. And for the first five months of 1986, the Radio Network Association pegs revenues at \$142 million, representing a 16% increase over the first five months of 1985. Meanwhile, the CPM index for network radio grew from 279 to 293 in 1985/86, a 5% increase over the previous year, as recorded by the Radio

Advertising Bureau (RAB).

National spot radio, by contrast, posted a 10% gain in 1985 on revenues of \$1.32 billion, compared with 1984's \$1.20 billion. Revenues are likely to remain at that level for 1986. Many radio sellers concur that "flat" would be the optimistic reading, adding that the year may very well come in slightly under 1985. CPM's for national spot are calculated by the RAB to have gone from an index of 240 in 1985 to 250, a 4.2% increase.

In terms of anticipated rate increases, both sellers and media buyers were all over the lot in estimating next year's CPM increases. For example, buyers surveyed in *Decisions'* annual media cost survey predicted a 5.0% CPM increase for network radio and a 4.0% rise for national spot. But other

Network radio hopes for a great year, while national spot scrambles to keep up.

buyers like DFS/Dorland's Sam Michaelson, vice president, associate buying director, foresee network radio increasing 9% and national spot 7%.

In early fall, after network tv budgets are put to bed, advertisers will turn their attention to a growing, new phenomenon, the upfront network radio marketplace. Radio networks including Capital Cities/ABC, CBS, Inc., NBC Radio Networks, Satellite Music Network, Sheridan Broadcasting Network, Transtar Radio Networks, United Stations Radio Networks and Westwood One/Mutual will all vie for a piece of the pie which may cost more per slice in 1987.

While many media struggled in 1985-86 to weather a poor advertising environment, and do not expect much bottom line improvement until the second quarter of 1987, network radio is taking it all in rather smugly. It never felt the pinch. Indeed, during the network radio scatter market at press time, inventory was selling at CPM increases of 15%-20%, enthuses Lou Severine, vice president, director of sales for the seven Cap Cities/ABC Radio Networks. This go 'round, Severine ex-



“Buyers . . . think if they have bought network radio, they have covered the medium.”

*Edward Kiernan
Vice president, general mgr.,
CBS Radio Representatives*

pects CPM increases in the 6%-10% range for upfront advertisers, and 15%-20% increases for scatter buyers.

Likewise, Randy Bongarten, the president of NBC Radio, which owns three networks, envisions another banner year in 1987. He predicts network revenues will be up another 8% while CPM increases will range from 5%-6%. “The growth in network radio,” Bongarten says, “has not been evenly distributed, and is primarily in the youth and special programing area.”

Why the sudden burst of activity in network radio? Mike Drexler, executive vice president, national media director for Bozell, Jacobs, Kenyon & Eckhardt, attributes network radio's good fortunes largely to the soft economy. His point is that in a year when advertisers were nervous about their own financial performance, as well as the continued health of the economy, network radio looked like the place to be for the smart money. For example, a buyer can reach 85% of the country on a larger network like the CBS Radio Network for approximately \$2,500 per 30-second commercial.

“Advertisers in a slow-growth economy are looking for ways to gain more efficiencies from investments, and the media efficiency from network radio has always been exceptionally good,” explains Drexler. He points out that this is the first year where the actual CPM increase for network radio is running higher than for television. But beyond efficiency, Drexler also notes radio's ability to isolate specific audiences, a talent highly prized in this era of target marketing.

BJK&E certainly puts its money where its mouth is. The agency is radio's biggest fan, billing \$156.2 million in radio last year, or 14.2% of its overall take. The next largest agency investor in radio is BBDO at \$146.2 million. Some of BJK&E's biggest radio clients are Lee Jeans, American Airlines, Greyhound Corp and Chrysler.

Robert Lobdell, director of the Radio Network Association, also cites network radio's efficiency as the cause for its newfound appeal. A number of packaged goods companies, including Procter & Gamble, Chesebrough

RADIO'S TOP 10 NETWORK ADVERTISERS 1985

	Millions of \$	
1.	\$24.853	American Telephone & Telegraph Co.
2.	20.803	Sears Roebuck & Co.
3.	16.268	Warner-Lambert Co.
4.	14.250	Greyhound Corp.
5.	12.770	Procter & Gamble Co.
6.	9.334	R.J. Reynolds Inc.
7.	9.049	Cotter & Co. (True Value Hardware)
8.	9.034	General Motors Corp.
9.	8.929	Anheuser-Busch Inc.
10.	7.569	Chesebrough-Pond's Inc.

Source: Radio Advertising Bureau

HAYES COHEN

Pond's and Warner Lambert, regularly show up on network radio's top 25 advertisers list. "P&G [which spent \$13 million in network radio last year] is very efficiency-minded," Lobdell adds, "and one of its major reasons to expand in network radio is its ability to target a narrower demographic than they get from tv, and to do it cost effectively."

Many marketers, like P&G, Lobdell continues, use radio to reach working women. In a recent R.H. Bruskin study for the Radio Advertising Bureau, women were found to dedicate two-thirds of their media time to radio, more than the time they spend with all other media combined.

Miles Laboratories, at the recent Association of National Advertisers and the Radio Advertising Bureau's joint radio workshop, said it would place 15% of its total ad budget for five brands in network radio this fall. Miles has used network radio in tandem with magazines for its Multiple Vitamins to reach married working women.

"It is difficult for our media planners to ignore network radio," explained Mitchell Streicker, vice president and

director of Miles' media operations. "Even if you accept the idea that radio recall and persuasiveness is 50% of tv — which I don't — radio is still way ahead," he concludes.

Retailers too have jumped on the network radio bandwagon. Of the top 25 network radio advertisers, five are retailers. Lobdell says that many retailers, including Sears Roebuck, K mart, True Value Hardware, Goodyear Tire & Rubber and Radio Shack, have changed their marketing plans from a regionalized to national approach, using national media.

Still, despite its growing popularity, many media buyers say they will not pay more than a 3% CPM increase for network radio. "I really don't expect extreme increases in network radio," says Angela Becker, supervisor of Ted Bates' radio unit. "This was a real hot year for network radio, and they raised rates 5% higher than anyone else last year," tells Becker. Now her reasoning is that "in order to remain competitive with network tv, they will not have the flexibility to do that again next fall."

One possible pullback on the growing popularity of network radio is the

RADIO'S TOP 10 NATIONAL SPOT ADVERTISERS 1985

Millions of \$

1. **\$40.034** Anheuser-Busch, Inc.
2. **31.720** Van Munching & Co. (Heineken & Amstel)
3. **29.925** PepsiCo, Inc.
4. **27.943** General Motors Corp.
5. **23.549** Chrysler Corp.
6. **19.926** Southland Corp. (7-11 Stores)
7. **19.903** Delta Air Lines Inc.
8. **19.746** Miller Brewing Co.
9. **16.704** Sears, Roebuck & Co.
10. **14.944** Eastern Airlines

Source: Radio Advertising Bureau

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*30, Oct. 1, 2

Los Angeles • Beverly Hilton

OCTOBER

7, 8

Detroit • Michigan Inn

*14, 15, 16

Atlanta • Hotel Tower Place

22, 23

St. Louis • Marriott's Pavilion

NOVEMBER

3, 4

New York • Marriott Marquis

5, 6

San Francisco • Ramada Renaissance

12, 13

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*18, 19, 20

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use of the 15-second television commercial. Cap Cities/ABC's Severine acknowledges that "15's scare me more than anything else." If network 15's catch on in a big way, Severine feels some of his customers may kiss network radio goodbye.

And to a limited degree, that may be happening. For example, at Western International Media Corp, a buying service, Elizabeth Brooks, senior vice president, says that many of her clients

have already shifted out of radio into television. "Clients really *want* television. And because budgets are not increasing, the first thing that goes is radio," she notes.

Oddly enough, radio sellers also worry that should the economy turn for the better, network radio could be left in the cold once again. Cap Cities/ABC's Severine acknowledges that when the economy is good, network tv also has a good year. But for some

mysterious reason, when network tv has a good year, network radio has a bad year.

National spot's struggle: Unfortunately, the success of network radio has taken its toll on national spot radio.

While sellers of national spot have always griped about being the media planner's last priority, they also point to changes within their own industry which have made for a tougher sell.

"One of the things about network radio," begins Ed Kiernan, vice president and general manager of CBS Radio Representatives, "is that until five years ago, major stations in major markets like New York were not network radio affiliates. So, when you buy network radio today, your coverage in the top 10 markets is much stronger than what it used to be. And buyers, unfortunately, think if they have bought network radio, they have covered the medium," Kiernan outlines.

Radio buyers admit being less than enthusiastic about national spot. "We have been doing very little spot because most of the larger reps have outpriced themselves," explains Bates' Becker. "When we go back to a client that distributes in 80% of the country, and he sees what it costs for spot, the client will simply find network more efficient," she says. Becker estimates 3%-4% CPM increases for national spot radio next year.

While most media buyers agree with Becker's estimates, CBS' Kiernan says, "considering how lackluster a year it was, 3%-4% would be on the optimistic side." Kiernan was bracing for a tough summer, hoping that things would turn in the fourth quarter.

Kiernan's competition, McGavren Guild's president Ellen Hulleberg, was looking for relief sometime after the first quarter 1987. Hulleberg, however, is hoping for 7%-8% increases for national spot radio in 1987, and sounds determined not to be beaten down by the agencies this negotiating round.

"The pressure on agencies is tremendous. It seems like each time they have to beat the cost-per-point they established last time. So instead of coming in with something that is a little bit higher than last year," Hulleberg gripes, "it's the same or lower."



It reaches beyond sight. Into the imagination. 200 million listen every week. Three and a half hours every day. On the road, at work, on the jogging path, 96% of all Americans sing its tune, hear its message. That's the power of radio. Radio advertising sells. How do we know? We've been measuring and describing radio audiences so you can turn the power of radio into money—for over 21 years. Arbitron. We know the territory.

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As she readily admits, "there are many stations that are willing to do that because they need the quick revenue fix. So what happens in many cases is that the agencies do beat their cost-per-points and become heroes. That's why agencies are probably looking at a 3% increase, but we're going to "push for a 7%-8% increase," she declares.

One interesting twist some national spot radio sellers may be exploring is the group sell. Last spring, the Federal Communications Commission dropped its regulation which prohibits separately or commonly owned stations servicing the same market from offering combined advertising packages. While only Gannett so far is selling television, radio, newspaper and outdoor packages, media sellers like CBS' Kiernan are also exploring the turf.

CBS Radio Representatives met in early summer with Bonneville Broadcasting about the possibility of offering advertisers time on Bonneville Seattle tv station KIRO-TV, and KIRO-AM, a station CBS Radio represents. Both stations carry Mariner baseball and are discussing the possibilities of packaging a sports deal for advertisers.

While nothing has been decided be-

tween CBS and Bonneville, Kiernan is clearly excited about the possibilities. "Up until a couple of months ago we couldn't even think in this direction. But now, the FCC says go ahead and do it within reason, and we will find out what that means," Kiernan adds.

Kiernan believes group selling will take off, if media companies can make a neat effective package for advertisers. "This is the year you should be doing things like this," Kiernan advises other media.

Agency media directors are a little less enthusiastic about the notion. J. Walter Thompson's senior vice president and media director Richard Kostyra says that "conceptually," he's open to the idea, but in practice finds it difficult. "What I want is to package the things I am already buying for a lower rate, and that is not the seller's motivation. Their motivation is to get me to package things that I'm currently not buying," Kostyra notes.

Another unanswered question for all media, but of particular concern to spot radio, is what kind of clout will the mega-merger agencies actually exercise. Some radio sellers are clearly worried.

"The Omnicoms of the world are probably not good news for spot radio," worries CBS' Kiernan. "Spot radio is a medium that needs time, attention and enthusiasm. And I am concerned that if efficiency of operation is the goal of an Omnicom, then spot radio doesn't have the kind of place it might somewhere else. I have no examples of this happening yet, but it is a concern," Kiernan says.

Buyers are wondering about the power of clout as well. "I'm not sure that the Omnicoms will get a better price, but they will get better opportunities for the best programing because of their tonnage," notes DFS/Dorland's Michaelson.

Not everyone is so concerned, however. JWT's Kostyra does not think the new Omnicom (the combine of BBDO, Needham Harper Worldwide, Doyle Dane Bernbach) or Saatchi & Saatchi empires will result in more clout. "Not unless they unite their actual media departments, which they have not done so far," he points out. "Clout does not exist unless it's in the hands of an individual. Clout in the hands of a corporation is meaningless," he concludes. ■

A CONVERSATION WITH ANGELA BECKER

Angela Becker is supervisor of Ted Bates' radio unit in New York. Last year Bates spent \$98 million in radio, or 5.1% of the agency's total billings, according to the Radio Advertising Bureau.

Some of Bates' big radio clients are Panasonic, M&M/Mars and Warner-Lambert, which the agency lost at press time.

Bates, in terms of radio cost increases for the upcoming year, is figuring on the low side, 3% CPM increase for network and 3%-4% for national spot.

On costs: We do not expect to see such extreme increases in national spot or network radio. Spot has been pretty quiet for us and network radio, to remain competitive with network tv, will not be able to ask for high increases.



Future: Radio has not moved forward in 10 years. Advertisers still lean toward tv. Agencies are at fault to a degree; nobody wants to be a radio

copywriter, for example. It's the nature of the beast. Television is just more of an ego medium. We have clients who will lean toward tv even if the CPM's are comparable to network radio. It is ego.

On network :15's: The :15's will help television even more. And when all media are relatively cheap, like this year, that tends to hurt radio even more.

On mega-mergers/mega-clout: I'm not so sure this will happen in radio. Even though we make national buys for radio, it is still a local medium and is still an individual medium.

We have quite a few clients going into network radio, so the bulk of the dollars going into network radio has helped us overall.

CAN PUBLISHERS JUMP THE HURDLES?

Despite some strengths, many factors are working against consumer magazine publishers as they eye rate increases for 1987.

by Rebecca Fannin

The pressure will be on consumer magazines asking for even slight advertising increases for the coming year, and for many reasons. Lower television prices are creating more options for financially strapped advertisers. Corporate advertising budgets are just managing to outpace inflation. Magazine pages are declining while the number of publications continues to multiply. The liquor and tobacco businesses, two of magazines' most ardent supporters, are going south. And magazine rate negotiation is coming out of the closet.

"This may be the first year that all these factors are converging to affect magazine rates," declares Philip Guarascio, executive director of advertising services at General Motors Corp. "But all this is creating an opportunity for advertisers to be more aggressive, flexible and imaginative."

Guarascio, who has pushed for concessions from magazines like elimination of bleed charges and special position premiums, may find 1986 the year that he gets to play chieftain at the bargaining table.

Already, it seems clear that magazine cost hikes won't be as high as in years past. While media buyers may not find the deals as good as, for instance, in daytime television, where declines of 15% are reported, magazines still probably won't ask for much more than a 5% rate increase. That is a relief compared to the annual 7% to 8% increases magazines have de-



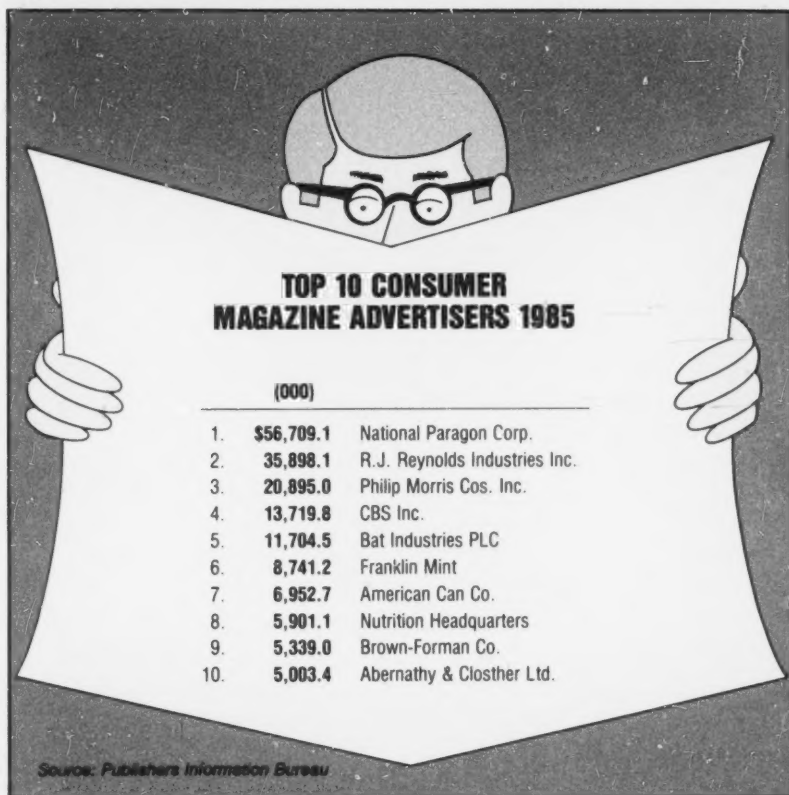
ILLUSTRATION BY ANDREA BARUFFI

manded in recent years. But in this softening economy, advertisers and their agencies are still miffed that consumer magazines are raising their rates at all.

"There is no reason to believe that they will be raising rates, nor does it make any sense," says J. Walter Reed, senior vice president and director of media at F.C.B./Leber Katz Partners, Inc. "With shorter length tv commercials, there are more options at less cost."

"It's a good question why they need to raise rates at all," seconds Leo Scullin, vice president, director of print and new electronics at Young & Rubicam Inc. Still Scullin is predicting that rate increases will be in the 2% to 5% range. He believes that "those magazines at the high end should give justifications for those increases."

Magazine ad buyers say lower rate hikes are justified in the coming year, in part because publishing expenses have leveled off. While magazine profit margins have dropped by 1.64



A CONVERSATION WITH MIKE DREXLER

Mike Drexler is executive vice president and media director at Bozell, Jacobs, Kenyon & Eckhardt.

On the cost forecast: We are expecting a rate increase of 5.6% compared with 7% to 8% last year. Magazines are experiencing inflationary costs in overhead such as salaries. But magazines haven't had any big increases in postal costs, paper or ink. So there is still the question of whether there should be increases at all.

On magazine costs in comparison to tv: For the last two years, we have had a case where magazine ad increases have surpassed tv's. This is a whole new thing that could be very bothersome. It could mean that more money goes into tv rather than magazines. On the other hand, the growing use of 15-second tv commercials could mean that more advertisers need to use magazines to better explain or describe products.

On negotiations' effect on rates: We are seeing negotiating taking place among magazines that are considered the third or fourth publication in their category. There's also more pressure for negotiating by ad agencies that are setting themselves up for it.

I don't just mean negotiations on a straight cost-per-thousand basis, but perhaps reductions on positioning and bleed charges, multi-year incentive programs, special category discounts and merchandise packages.

We have just set up a tracking system for magazines. First we see what kinds of discount packages are being offered. Or we might also track magazine CPM's in comparison to other media, the editorial product, or say, the rate of inflation against CPM's. The object is to get a snapshot of the industry while getting the best possible deal for our clients. Then we begin discussions with individual magazines within specific categories to find out from them how they are going to op-

erate, what kinds of guidelines they are setting forth on each of these points. Then we go ahead and talk budget on behalf of the brands. What this process does is put us in a better position to affect further discussions.

On magazines' lackluster health: The prediction is for some real turn-



percentage points to 9.65% of gross revenues since last year, many operating costs have gone down. For instance, another postal increase in second class mail is not expected until 1988 or 1989. The last one, in 1985, was for 14%. Moreover, an influx of four new paper machines at major mills should increase supply by as much as 30% next year, according to *Paper & Pulp* magazine. Although supply was tight in this cyclical business just two years ago, next year there will be plenty of excess capacity. Magazines are only anticipating their paper usage to increase by 3.7%. Paper price-cutting already has occurred. In February, a 5% discount was introduced and spot reductions have followed since, says the magazine. More price cuts are expected by the end of the year.

Relatively low rises in the Consumer Price Index also are encouraging advertisers to yell, "No more hikes!" Last year, the CPI was up by 3.6%. Through May 1986, it has only been another 1.6% climb.

around and perhaps more growth in the economy by mid-1987.

Strengthening of the automotive category is benefiting magazines. And there is also advertising growth from consumer electronics, financial services and healthcare. But there is nothing on the horizon that will be a big boom.

On how big ad agency mergers affect rates: People are saying that these agencies will have more clout in buying media. But we're not brokers. We don't buy media for all of our clients as a group whole. If we did, then we would be able to get better deals. But it could turn into a bloody battle over what client got what deal.

On multi-media group sales: It only makes sense if the total package is better than each of the media. There has to be some common bond in the media package like delivery of the same audience lifestyles or targets. Too often, these multi-media deals are force-fed to the advertiser.

Though some publishers are attempting to introduce new cost efficiencies by putting together involved package schemes, media buyers don't see much price relief either in the multi-title or cross-media group packages that mass media companies like the Gannett Co., parent of Sunday's *USA Weekend*, are offering at discounted rates. They complain that often these packages are a jumble of media titles or properties without

thought to clients' marketing needs for a cohesive set matched to their goals. "It's not a function of discounts as long as it's done from a selfish standpoint of selling more," states Y&R's Scullin. "There has to be some common thread of lifestyle or editorial."

When the books *can* be unified, like with Hearst's multi-title buy of upscale magazines, the savings can amount to as much as 30% versus the rate of buying each individually, according to

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BASIC DATA FOR CONSUMER MAGAZINES SELECTED YEARS—1960-1985

	1985	1984	1983	1982	1980	1970
Number, including farm publications	1,859	1,816	1,759	1,644	1,506	1,182
Advertising in major magazines						
Pages (per year)	152,100	153,600	133,000	120,800	115,300	76,990
Dollars (millions per year)	\$4,920	\$4,668	\$3,421	\$3,222	\$2,374	\$1,169
Circulation per issue						
ABC audited magazines (millions)						
Single copy	81	82	83	86	91	70
Subscription	243	233	222	217	174	173
Total	324	315	305	303	265	243

Source: James B. Kobak

FINANCIAL PROFILES OF MAGAZINE PUBLISHING 1983-1985

(Amounts expressed as a percentage of total magazine revenues)

	Percentages		
	1983	1984	1985
Total number of magazines reporting	154	172	169
Revenue			
Net advertising revenues	49.87	51.91	49.70
Gross subscription revenues	33.70	32.97	33.29
Gross single copy revenues	16.43	15.12	17.01
Total magazine revenues	100.00	100.00	100.00
Advertising expenses	9.15	9.47	9.36
Circulation expenses	25.07	24.83	26.87
Editorial costs	8.40	8.66	8.51
Manufacturing and distribution expenses	36.90	36.55	36.19
Other operational costs	3.27	3.31	3.29
Administrative costs	6.32	5.89	6.11
Total magazine costs	89.11	89.71	89.36
Operating profit (before taxes)	10.89	11.29	9.65

Source: Magazine Publishers Association

Hearst Corp. executive vice president George Green. But multi-package deals haven't become a very popular sales tool at most media companies because of political infighting. For instance, what happens when a stronger magazine, newspaper, outdoor chain or tv station consistently has to support weaker properties? "Then you have fighting over where to spread the credit for the buy," points out Ed Papazian, a media consultant with *MediaMarket Guide*.

Any savings from the combined clout of agency media buying departments is expected to be years away too. R.J. Reynolds media director Dan Pearson says that he has been able to strike better deals since the tobacco company's in-house media buying department was joined with merged Nabisco Brands. But at advertising agencies, space and time are bought separately for individual clients rather than brokered as a whole for the agency's total client lineup.

Eventually, however, the agencies will probably "form their own media buying services," notes Joe Campion, director of media services at Chesebrough-Pond's. But Campion questions whether large bureaucratic agencies that can command this clout will also be able to attract the best negotiating talent.

Understandably, magazine publishers are much more bullish about the prospect of a revitalized magazine selling environment and the need for additional charges to advertisers. Hearst's Green predicts rate increases of approximately 5%, citing mounting costs for salaries, office space and inflation as rationale. And judging by the business Hearst magazines are picking up for the fall, he believes a recovery is just around the corner.

Magazines are also optimistic that the growing popularity of 15-second commercials will help to boost magazine spending. "They're just not that effective. They give the name and then they're off. Advertisers will need magazines to better describe or explain the product," points out Joe Fuchs, a corporate vice president with Conde Nast Publications.

But magazines are having to grapple

with some very troublesome and longer-term financial clouds. Ad growth of 7.6% this year should outpace economic expansion of 6%, predicts Robert J. Coen, McCann-Erickson's senior vice president and director of forecasting. Magazines, however, may not get their share of this growing pie. For the first five months of 1986, ad pages are down by 0.8% while revenues showed a 3.9% increase. That follows 1985's dismal performance, when ad pages decreased by 3.3%. Revenues, however, were up by 4.5%.

And financial analysts who study the magazine industry don't expect ad page increases to pick up until early next year, at the soonest. "We've been hearing about this turnaround that's going to come for consumer magazines until we've gotten tired of the cry, 'Wolf! Wolf!'" says Kevin Gruneich, an analyst with the First Boston Corp. "I don't think that we'll begin to see a turnaround now for at least a year," he notes.

Gruneich points to declining newsstand sales as part of his rationale for magazines' ill health. Single copy prices have risen by 29% since 1980, and some readers have balked. Last year, newsstand sales declined by a slight .02%, notes the Magazine Publishers Association. However, subscription prices, which have soared by 27% over the past five years, still are showing increases. Last year, subscriptions were up by 4.5%, according to the association.

Magazine advertisers, who account for half the publications' revenues, meanwhile, have been asked to ante up 33% more on a cost-per-thousand basis over the past five years. (For comparison, the CPI rose 23% since 1980.)

Cost increases, of course, have not been the sole source of magazines' travails. The real problem is "that magazines are only first choice for booze, butts and autos," says Alan Gottesman, analyst with L. F. Rothschild, Unterberg, Towbin. Two of those categories, liquor and tobacco, have fallen onto hard times and cut back in magazine advertising. Coen figures spot a 5% decline for liquor advertising and a 3% decrease in mag-

CONSUMER MAGAZINES ADVERTISING RATE INDEX

	Unit Rates	Cost per Thousand	Consumer Price Index
1970	100	100	100
1977	119	123	156
1978	120	135	168
1979	140	146	187
1980	156	162	212
1981	173	179	234
1982	189	195	249
1983	203	212	258
1984	224	227	269
1985	241	242	279
1986 (est)	255	256	287
1970-77 Increase	19%	23%	56%
1977-86 Increase	114%	108%	84%

Source: James B. Kobak

CONSUMER MAGAZINES CIRCULATION PRICE INDEX

	Average Single Copy Price		Average Yearly Subscription Price		Consumer Price Index
	\$	Index	\$	Index	
1970	\$.63	100	\$7.16	100	100
1977	1.11	176	13.39	187	156
1978	1.21	192	14.86	208	168
1979	1.33	211	16.30	225	187
1980	1.48	235	16.75	234	212
1981	1.62	257	18.06	252	234
1982	1.80	286	20.28	283	249
1983	1.97	313	21.53	301	258
1984	2.07	329	22.61	316	269
1985	2.10	333	23.15	323	279
1986 (est.)	2.16	343	23.84	333	287
1970-1977 Increase		75%		87%	56%
1977-1986 Increase		95%		78%	84%

Source: James B. Kobak

azine ads for cigarettes for the first quarter of 1986. The once-bright spot in magazine advertising, computers, is also dim. Computer spending is down by 35% so far this year, Coen notes.

Not much hope is held out for other categories to take up the slack left by the tobacco and liquor companies. "The only guys who are happy are the mailmen," jokes Gottesman.

The continued softness of the magazine industry is making for a particularly ripe time for haggling over prices. Advertising agencies which had remained mum when asked whether they were negotiating magazine rates now have publicly stated this very reality. N W Ayer's senior vice president and media director Marcella Rosen says, "We are very often offered lower rates when there are two or three competing magazines and the agency takes the best offer. Then, what happens is the loser comes back with a better package. We have always negotiated merchandising and positioning. But now we are seeing more price-oriented

deals, like volume discounts and the creation of special rates for certain categories," says the director at Ayer, which recently released a positioning statement on the form of negotiating taking place.

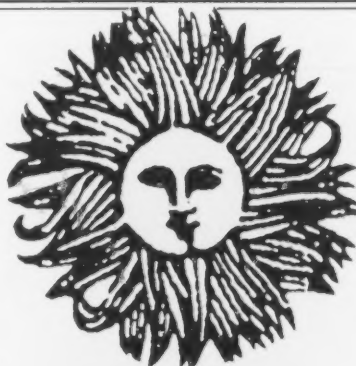
Advertisers too are sharing in the bargains. At Chesebrough-Pond's, Campion reports that since assigning magazine buying to media buying service Clifford Botway Inc., the packaged goods giant is seeing discounts of as much as 15%. "We are seeing discounting right off the rate card. One magazine offered us a 40% discount, but we turned it down because it didn't fit into the media plan." R. J. Reynolds' Pearson also reports that he's "seeing a higher level of interest in offering incentive discounts like guaranteeing the CPM or making additional discounts on volume. They will say, 'If you spent \$1 million this year and if you maintain it regardless of the rate, we will give you an extra cap on the CPM.'" He adds, "We are seeing this not just in highly competitive or weak

categories."

Negotiation of magazine rates has grown more common as the number of magazines has increased. According to the *Ayer Directory of Magazines*, there are 11,328 publications, about 1,100 more than just five years ago.

Magazines beset by these off-the-rate-card deals are trying to build in some long-term rate protection of their own. For instance, at *Family Circle*, a well of advertising has been created in the book so that no ad is adjacent to editorial. The space is being sold at a 40% discount. Others are trying to lock up multi-year plans in hopes that they can avoid the rate bargaining issue.

But with the soft economy for magazines, advertiser demands for bargains are likely to intensify. "If magazines were smart," says Walter Staab, president of media buying service, SFM Media Corp., "magazines could get competitive and challenge the networks. They could let their rates ride for 18 months. But they just never seem to grab this opportunity." ■



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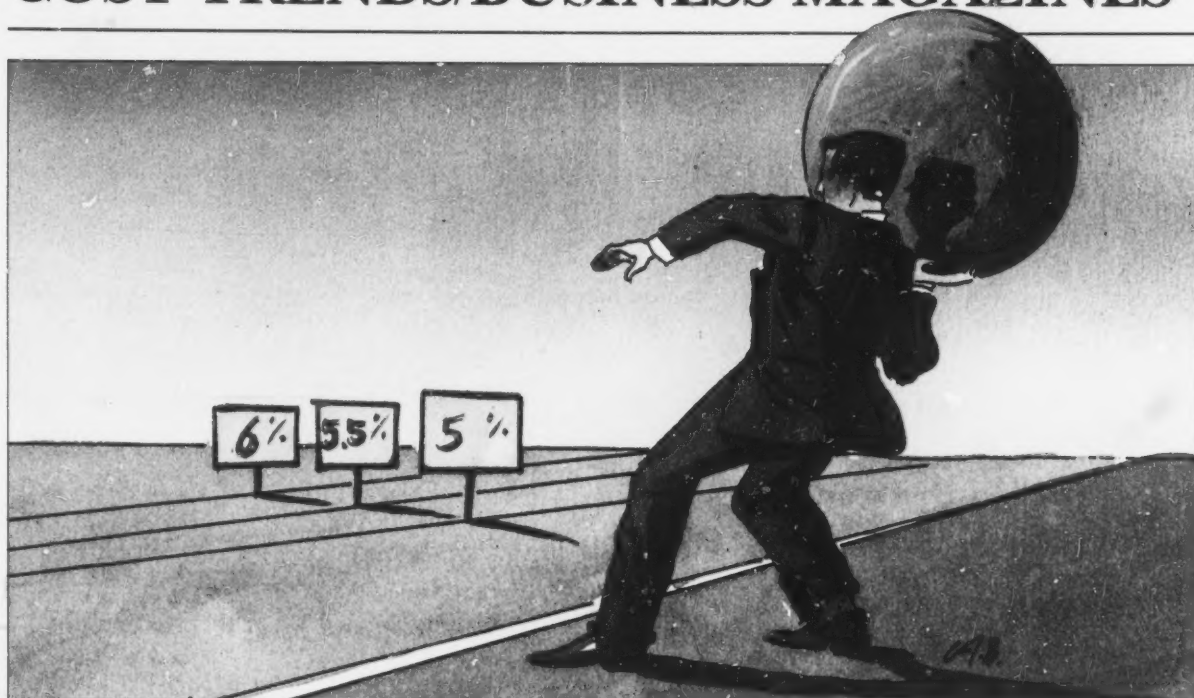


ILLUSTRATION BY ANDREA BARUFFI

ANYTHING BUT BUSINESS AS USUAL

by Fred Pfaff

Charles W. Gade, BBDO/Business to Business' director of media, has a bite to his voice as he handicaps the climate for the business press. "With business magazines' inflation now static, no paper shortages or postal increases and advertisers demanding more for the dollar, 1987 is going to be an all-time low for rate increases — between 3% and 5%," he states firmly.

Decisive though he may sound, others say he may be in for a not-so-happy surprise. Publishers look to increase their rates on average from 5% to 8% for the coming year. Rate rises, they argue, are the most reliable way for them to cover costs from staff benefits to editorial improvements that are rising faster than the rate of inflation.

Many planners are braced for 5% to 7% increases. But with most client budgets holding flat and a spirit of negotiation sweeping the magazine industry, publishers will be pressured for inducements like never before. Pinched advertisers have already tumbled the industry into more off-card dealing than many can remember. In addition to cutting frequencies and books and devoting more to direct mail, planners say they and their clients will now press for greater merchandising support and the kinds of discounts and group buys business publishers have resisted.

There's no denying that business has been soft for the business press. "They're not doing as well as they thought they would," notes Joe Newman, associate media director at HBM/Creamer and noted business-to-busi-

With the costs of publishing down, agencies expect a cooling of trade cost trends.

BUSINESS MAGAZINES

ness media veteran. "They're cutting expenses. They're slashing staffs."

Indeed, Gordon Publications director of corporate research Perry Patterson had to revise his predictions on revenues downward after the soft first quarter. Patterson originally foresaw a 2% rise in business press pages for 1986. But by the end of this past June, he'd changed his projection to a 2% decline in pages for 1986. The business press finished 1985 just above even in pages.

In rough years, magazines are the victims of the industries they serve. While corporate profits aren't falling across the board, there's no question that some markets are floundering. The electrical industry, for one, saw first

quarter profits fizzle by 12%; the machine industry grinded down by 55%; mining profits took a 17% plunge; and service industries raked in 17% fewer bottom line dollars.

Under-the-gun publishers note that even in a soft market their costs are going up. They point to a recent uptick in the Consumer Price Index. Down under 2% this year, the CPI is expected to hit 3.5% to 4% in 1987. Publishers are quick to claim they have more costs which rise faster than the CPI. Even junior clerks in the finance department, notes Penton/IPC chairman Thomas L. Dempsey, demand 5% to 6% pay hikes every year. Dan M. Sember, president of MacLean Hunter Publishing Co., for one, sees labor costs rising at a 5% to

6% rate next year. Richard J. Moeller, president of Harcourt Brace Jovanovich Publications, foresees salary outlays jumping even higher, from 7% to 9%, and insurance costs rising 10% for 1987. Healthcare costs, Sember notes, are slowing thanks to industrywide efforts at cost containment, but the rate of increase remains as high as 30% for next year. And with business down, points out Penton's Dempsey, it actually costs more to put out a thinner magazine.

Still, publishers have some good news on costs that makes it tougher to appease advertisers angered by increases. For one thing, Sember notes that publishers have been able to negotiate with printers to maintain or re-

A CONVERSATION WITH KARL KAUFMANN

Karl E. Kaufmann is manager, corporate marketing communications for 3M Corp.

On rate increases: They've got some tough times going for them right now, and I think they're going to have to hold the line. From an advertiser's standpoint, budgets are really being held tight. Everything we do, from trade shows to direct mail to advertising, is under very close scrutiny.

When the costs of doing business — printing, paper, and so on — were going up, we could definitely see the reason for increases. We see a lot less of those costs going up now, so we're going to be very resistant to increases. Magazines ought to price on a constant cost per thousand. If their circulation goes up, fine, we ought to pay for that.

On the alternatives: We're certainly pressing for negotiation. What I'm looking for is, based on the weight of the total advertising that we do as a company with a publisher, against all of his books, an opportunity to negotiate rates for those books over and above frequency discount. That's the way I think we've got to go in this whole business-to-business market.

There are ways to reach business people other than in the business-to-



business press. For instance, cable television. If you can segment your audience into cable television, and you can find a significant audience there somewhere, there are opportunities you ought to be looking at there.

On preprints: We're using them more and more. We're identifying important markets, then aggregating products from multiple divisions, then contracting and producing sections for magazines that show all of our products that speak to that market. A year ago, we might have placed seven individual

ads in a special issue of *Electronic Packaging & Production*. This time, we aggregated everybody and put them into our own section. We got a greater presence, we were able to negotiate for a better rate, and our leads went up exponentially.

On merchandising: We'll be asking for more support. When we do a section, say 24 pages, we'll get the publisher to overrun that section with an 80-lb. wrap-around cover that we'll use for collateral and merchandising. The section becomes a selling tool.

Publishers like to design merchandising programs to take advantage of their own capabilities — printing, for instance. We may not need that. We as advertisers have to decide what tactics will support our other tactics. I think we'll see more advertisers begin to ask publishers for what the advertiser needs in the way of support.

On the biggest threat: If publishers don't begin to do some of these things, we're going to find large companies bringing the whole media planning and buying process into their companies so they can take advantage of everything they do. Or they're going to start taking a hard look at media buying services on the outside.

BUSINESS MAGAZINES

duce those essential costs. The paper picture is also stabilizing. The Magazine Publishers Association's "Paper Outlook" predicts paper consumption will rise 3.7% overall and 4.3% for coated groundwood in 1987.

Paper manufacturers expect non-magazine users to keep dipping into the supply of number-5 grade stock at the rate of 10% to 15% a year. Publishers are using more paper than U.S. companies can run through the mills, but the American Paper Institute predicts new U.S. paper machines will raise domestic capacity by 7% for 1987. And foreign suppliers — now more than 6% of the total U.S. paper market — are also helping fill the gap. The result: Premiums shouldn't put publishers through the roof. Indeed, for printing and paper combined, MacLean Hunter's Sember can't see costs increasing more than 2% to 3% in 1987.

Some publishers seek safety behind postal increase threats. But MPA Washington counsel David Minton can't see one coming in 1987. MPA negotiations for lower rates for publishers who sort their shipments haven't won them any discounts. Minton reports, however, that the Postal Service, now reporting profits, hopes to hold off an increase until after the 1988 election.

Like their counterparts in the consumer field, business publishers stand to benefit from the pending new tax bill, which would lower the ceiling on the corporate effective tax rates to between 30% and 33%. "The typical

publisher is now paying 45% in taxes," notes Chapin Carpenter, an MPA senior vice president. "And he doesn't have a lot of depreciation that lowers the rate. The bill is favorable."

That doesn't make rate increases any easier to justify to an ad community that has watched business press revenues dwarf page growth by more than 700% since 1974. "The fact of the matter is, revenues are up," points out Bert Peller, J. Walter Thompson USA vice president, manager, media for business markets. "The specialized business press has been sustaining itself on rate increases for years."

BBDO's Charles Gade agrees: The business press has been approaching a danger zone with regular rate increases, and planners aren't buying the old cost rationales. "They have literally been unconscionable when it comes to rate increases," he argues. "They have a standard ploy in that their costs continue to grow, and paper is out of sight, and a postal increase is coming . . . The way it really works is they sit down around June and say, 'What do we think the freight will bear this year? If the average is 10%, and we ask 11%, we won't stick out, but we'll get just a little bit more than the next guy.'"

With clients lucky if they increase their budgets by even 4% this year, planners are really under fire. They face a shadow of fear: Clients who find their agencies not tough enough with business books may start hiring independent media services or taking buy-



"We're at a cross-roads: Publishers have to work with us a lot better than they have."

*Charles W. Gade
Media director,
BBDO/Business to Business*

ing in-house. "The old days of automatic increases and advertisers accepting them are gone," affirms HBM/Creamer's Joe Newman. "Advertisers are at a stage where they want a return on investment." One client Newman serves, faced with a flat budget, issued a mandate this year: Put any magazine whose rates rise automatically under a separate, harsher light.

For planners, the new pressure mandates "creative" scheduling. The alternatives they're weighing will likely chip away at publishers' bottom lines. Publishers and planners alike expect advertisers to press for more off-card deals in the tight environment. Already this year the business press has seen an eruption of that frowned-upon practice to the extent that MacLean Hunter's Sember says, "I've never seen it this bad before. And because of all the mergers and acquisitions in the business world, I'm fearful that we're going to see more and more advertisers pressing for off-the-rate-card rates."

Off-card dealing is only the first off-

BUSINESS PRESS SCOREBOARD

year	no. publications		revenues (000)
	measured	pages	
1985	2,760	1,810,500	\$3,021,000
1984	2,775	1,775,000	2,850,000
1983	2,750	1,705,000	2,447,000
1982	2,725	1,740,500	2,328,000
1981	2,675	1,776,000	2,156,000
1980	2,650	1,700,000	1,925,000

Source: Association of Business Publishers (measured publications have quarterly or more frequency).

shoot. Planners promise to take scissors to their schedules. Cutting frequency is the first place senior vice president, media services, Herbert D. Gordon will look for Ketchum Advertising USA clients, provided he can maintain six-time to nine-time frequencies, the minimum range he thinks makes any real impression. HBM/Creamer's Newman agrees. "Clients will end up using fewer magazines or fewer pages," he says. "The publications on the list that are number one and two are going to hold their schedules at the higher rates. The publications further down are going to be cut back, or will lose their schedules altogether." But if the number-two book comes close at more attractive rates, Newman can see substituting it for the leader for a year or two.

Too-high rate hikes are one more excuse to look at other media, especially now that clients who merge or acquire end up searching out spending overlaps and shrinking their ad budgets to a lean, core effort. Peller expects the tendency for merged companies to adopt umbrella campaigns to put the squeeze on highly vertical books that make themselves more expensive. Already, Ketchum's Gordon finds direct mail "very appealing for business-to-business. You can do in direct mail the same thing you can do in trade media: Focus on a particular target segment. And direct mail can develop a higher response."

And all other media are mounting stronger challenges in the opinion of Meldrum & Fewsmith's Gene Thompson. And, he warns, "once consumer media provide measurements of their audience in terms useful to the business media, there will be a lot more receptive ears." Radio, others point out, is especially attractive as a targeted alternative.

Pressed by clients, planners will take a tougher stance when they turn to the business books.

The first place planners will focus their demands is on volume discounts, cross-publication buys and corporate packages — incentives some business publishers remain reluctant to offer. As HBJ's Moeller explains the traditional resistance, publishers fear group buys



"Direct mail can focus on target segments and can develop a higher response."

*Herbert D. Gordon
Senior vp, media services,
Ketchum Advertising USA*

undercut their striving to keep each of their company's books a separate profit center.

It is an attitude, says Meldrum & Fewsmith's Thompson, that "clients find hard to understand." Since a continuous wave of mergers among publishers — more than 10 since August 1985 — is bringing books together, and since General Motors Corp.'s heavyweight Media Council has set the tone for negotiation in print, publishers know the pressure for group buys will be on from more advertisers.

As a result, BBDO's Gade foresees the resistance breaking. "I think top management at the publishing firms is starting to say, 'I don't care what the publishers want. Group packages will better the bottom line for the company.'"

Group buys have existed, but not without their skeptics. "Ziff-Davis and Petersen had group plans for years, and they hardly made a dent in the overall sales" is how James B. Kobak, chief executive of James B. Kobak & Co.,

thinks of group plans. Both planners and rival publishers doubt that creative packages of books within the same industries at such companies as Cahners Publishing Co. build the bottom line. Yet heads are turning to one group combination, called Manufacturing Technology, that Technical Publishing Co. introduced early in 1985. By buying a page in the supplement for a cost-efficient rate of \$13,999, advertisers reach top manufacturing professionals in the seemingly different *Datamation*, *Dun's Business Month*, *Plant Engineering* and *Control Engineering*.

Merchandising is another way to get more for the ad money. Oddly enough, publishers build into rate hikes a budget for merchandising — most say between 0.75% and 2% of ad revenues — but they seldom promote it and few advertisers take advantage of it. Now planners say they'll ask for better supports they'll suggest themselves, since, as BBDO's Gade puts it, "most of the merchandising aids publishers have offered have been junk."

Just the same, many advertisers simply want the bucks back through extra-frequency discounts and group buys. That strategy doesn't please MacLean Hunter's Dan Sember. Business books are underpriced to begin with, he says; and since discounts undercut profit margins, publishers wind up with more costs to cover the following year. "In the long run," he warns, "somebody's going to pay for it in the form of increased rates, that's all."

Joe Newman of HBM/Creamer counters with a warning of his own: "There's going to come a point where publishers can't increase their rates anymore because they can't sell the product at those rates."

His warning carries a critical message. After all, "We're at a crossroads right now: 'What's the alternative?'" points out Charles Gade. "The scream so far has been, 'Stop increasing your rates; we can no longer afford to keep up with arbitrary increases.' It hasn't reached the point of asking if advertising at a lower level is doing any good. But it certainly has reached the point of, 'Mister publisher, you've got to work with us a lot better than you have in the past.'" ■

A CLASH OVER HOW MUCH IS TOO MUCH?

Publishers are caught between mounting costs to upgrade their medium and stubborn resistance from space buyers.

by Fred Pfaff

Welcome to the industry that seems to continuously stab itself in the foot. That's how a cynic could introduce newspapers on the eve of the medium's annual rate increases. With publishers' traditional cost pressures stabilizing, and with possible cost breaks coming from the pending new tax bill, some might think this is the year newspapers hold rates and win back advertisers who have soured over rate hikes in recent years.

Don't bet on it. Increases, it seems, are as reliable as a daily deadline; and newspapers look to raise their rates between 6% and 8% for the upcoming year. Like 1986, that's less than the double-digit increases the medium strung together in the early 1980's. But it's higher than the inflation rate and the typical rise of client budgets, which tend to shrink in uncertain economic times.

In their defense, publishers point to mounting costs of improvements ranging from sharper color reproduction to finer reporters. But media planners say the rate increases aren't justified. None of the alternatives planners are weighing are good news for newspapers: cutting frequency, cutting papers, cutting markets, running more local broadcast and sending out direct mail.

Publishers have been cautious this year about discussing rate rises. For one thing, the economic climate, publishers and their rep firms point out, is uncertain at best. Gross national product estimates for coming quarters, for



Illustration by ANDREA BARUFFI

example, vary by as much as 6%, cites Kingsley Anthony, president of rep firm Million Market Newspapers, Inc. A variety of changes are making it hard for analysts to predict ad spending for 1987. J. Kendrick Noble Jr., first vice president at Paine-Webber and noted analyst of publishing stocks and trends, for one, finds a hitch in his traditional models. The U.S. government, he explains, has effectively rewritten the nation's economic history by revising economic indicators back to their origins in 1929, leaving analysts with a cloudy climate "like nothing we've ever encountered."

Indeed, predictions of rosier times for 1987 — forecasts of 3% economic growth, for example — may be more hope than reality. "The widespread euphoria about economic improvement with the new tax bill is uncertain at best," cautions Noble. "So is the advertising climate associated with it." For now, Noble estimates advertising expenditures in newspapers will increase by 9% next year — a calculation



"We may have to start considering newspapers as a last resort."

*Jack Cohen
Vice president, director of print
and outdoor buying,
Doyle Dane Bernbach Group*

that defies his instincts.

Noble isn't alone in uncertainty. First quarter sluggishness has already led both the Newspaper Advertising Bureau and Robert Coen, senior vice president and director of forecasting at McCann-Erickson Worldwide, to make significant downward revisions in their newspaper advertising predictions for the year. Coen had predicted that newspapers would grow by 6% in 1986. The NAB had predicted advertising in the medium would grow 9.9%, and in particular by 9.7% in national, 9.1% in retail, and 11.3% in classified.

But newspapers lagged the pace of those predictions in the first quarter. According to the NAB, the medium finished only 3.7% ahead of 1985 — up only 1.3% in national, 1.4% in retail and 8.1% in classified over the first quarter of 1985. So this past June, Coen revised his annual forecast, predicting 4.5% growth, while the NAB toned down its projection to growth of 8% — 8% in national, 7% in retail and

Some of the smartest media buyers buy the Beacon Journal

Talk to somebody who really understands the Cleveland ADI, Jim Pockmire, Senior VP Media, Wyse Advertising, Cleveland:

"The Cleveland ADI is unusual because it consists of several sizeable cities — Cleveland, Lorain, Canton and Akron. The Cleveland television stations cover the ADI.

"But there's no single newspaper that blankets the area. If you're using newspapers, the typical approach of thinking in terms of one paper per market just won't work. While the Cleveland paper gets 35% coverage of the ADI, it's very lopsided coverage — it gets 62% of the Cleveland metropolitan area and only 5% of the balance of the ADI. By buying the Akron Beacon Journal, you pick up a substantial part of the balance, because it has 60% coverage daily and 77% on Sunday in the Akron MSA.* And you're not paying for duplication of readership, either."

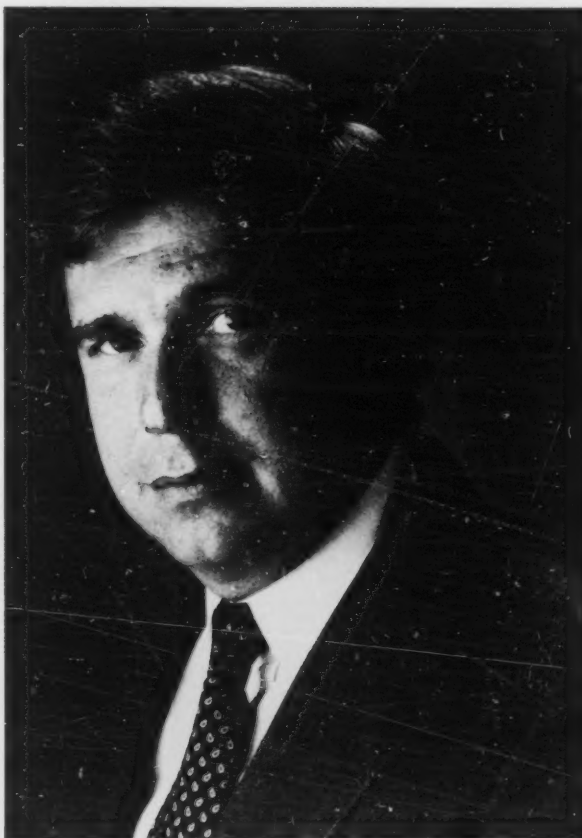
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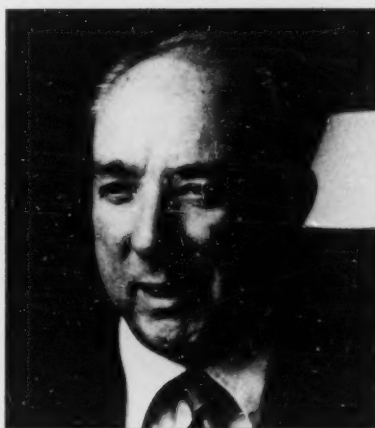
*ABC. 3/31/84



10% in classified advertising.

Some publishers have held their tongues, claiming they await the passage of the new tax bill before they crunch their budgets. Under the bill, effective tax rates would be lowered to between 30% and 33% for most corporations, a significant break from rates approaching 46%. The equally significant downside, according to one newspaper association lawyer, is that newspapers will lose the tax credits that have allowed them to deduct plant investments in the past.

Kevin Gruneich, First Boston Corp. vice president and publishing analyst, foresees a hike for national space. Gruneich predicts rate rises will be lower in highly competitive situations, a reading newspaper rep firm executives affirm. Gruneich reasons rates will rise higher in the Southeast and on the West Coast, markets that have boasted higher circulation growth than other regions, as well as for such "class newspapers" as the *Washington Post* which tend to dominate their markets.



"If you need the market and there is one paper, you're stuck."

Bud Shields
*Newspaper buying supervisor,
Campbell-Ewald Co.*

Some other major markets may strain client budgets badly. In Baltimore, where Hearst Corp.'s perennially weak News-American finally folded this year, newspaper executives foresee more dramatic rate rises than the industry norm. Watchers predict the same for Detroit, where the Gannett Co.-Knight Ridder Newspapers Inc. joint operating agreement has ended a famed *News-Free Press* battle that was fought largely on price.

Publishers' cautious silence is plain enough to Gruneich. "You'll always find silence when inflation isn't going up and papers want to raise rates to that degree," he says. "Telling about it would just give advertisers more up-front time to complain about the increases. Why would you want to do that?"

Especially not in a year when publishers' fundamental costs don't threaten dramatic jumps, and dragging corporate profits cast doubt on any swelling of ad budgets. Profits fell 3% for U.S. corporations in the first

On which side of the bay

Photo location courtesy Arthur Ruttenberg Homes



is your bread buttered?

The Tampa Tribune serves appetizing demographics daily and Sunday. Your advertising profits from the Tribune's elegant presentation of the basic ingredients of sophisticated selling. The Tampa Bay market — Florida's number one market in terms of population, households and effective buying income, serves you prospects on a silver platter.

The Tampa Tribune's readership represents a gourmet palate to the astute media buyer, offering more 25-54 year old readers, more readers in top level occupations, more households with children, more new car buyers, home computer owners and more households with \$50,000+ annual incomes than any daily newspaper combination in the market.

The upper crust of the Tampa Bay market reads The Tampa Tribune. Without it, your media strategy is only half-baked.

For a wealth of detailed market information, contact Joe Gess, Tampa Tribune General Advertising Manager, at (813) 272-7447, or contact your nearest Sawyer-Ferguson-Walker office.

THE TAMPA TRIBUNE

A Media General Newspaper
Member of the Gannett 4-Color Network

The Tampa Bay market consists of Hillsborough, Pasco, Hernando and Pinellas counties. Statistical sources: S&MM 1986 SURVEY OF BUYING POWER, Simmons-Scarborough National Newspaper Rating Study, 1985.

quarter of 1986.

Also, core costs of paper and people don't promise crippling new outlays. Last year, with supply outpacing demand and some Canadian mills — which produce almost 60% of U.S. newsprint — shortening shifts to counter surpluses, newsprint suppliers postponed the 6% increases publishers planned for. Publishers saved millions as prices have remained at the \$535/metric ton price set in July 1984, with most transactions discounted by about 10%. This past June, Canada's Consolidated-Bathurst Inc. announced it will raise rates to \$570/metric ton October 1; such other Canadian producers as Abitibi Price Inc. aren't far behind.

But the oversupply continues. Since Abitibi Price is still operating on a shortened mill run, some analysts expect the newsprint price increases to be held off until at least March 1, 1987. One reason, explains James L. Hutchison, vice president/paper group at the American Paper Institute, is that while the consumption by dailies has grown steadily over the last 18 months, "the substantial demand for newsprint for use in media other than newspapers has declined in the last six months." With the economy expected to grow between 2.5% and 3% and printing mills' capacity expected to remain constant, Hutchison predicts that demand will come closer to capacity next year.

Justifications for rate rises are the same old story. The cost of putting out and improving quality products, publishers argue, grows faster than the cost of living. Ferguson Rood, advertising sales director at the *Atlanta Journal & Constitution*, for one, contends that salaries and the cost of raw materials will continue to increase at a rate faster than the level of inflation. Industrywide, he estimates, salaries should increase 5% and materials costs should escalate 5%-6% against a 3% inflation rate. Peter M. Anderson, advertising director for the Gannett Westchester-Rockland Newspapers, also looks for salaries to rise 5%-6%, a figure slightly higher, he notes, than the projected national increase of 3%-4%.

"Newspapers are upgrading and expanding their news and editorial staffs across the board," Rood says. The im-

A CONVERSATION WITH JIM SPEROS

James D. Speros, corporate media manager for American Telephone & Telegraph, takes a tough approach to newspapers.



On budget pressures: What the media community tends to forget is that while it's nice to say our CPM's have gone down, very often our budgets have to go up to get that lower CPM; so in effect our out of pocket cost is greater. Budgets aren't growing as rapidly as they have in the past. So now we're more likely to cut back on markets or on the number of papers we buy in a market. It's getting easier with one paper dominating a market.

On group plans such as Gannett: The tack is interesting, but I'm not sure media is planned in the way they'd like to see it planned. You don't usually plan by looking for combinations but by looking vertically through the medium. Generally, you look at newspapers against one another within the markets where you're buying coverage, in an effort to maximize your coverage within a given market. So the fact that a media firm offers discounts by combining with other media isn't necessarily relevant at that point in the planning process. Crossing over to other media like that are things you tend to fall into rather than plan for.

On the rate differential: I think that's the real issue with newspapers. The kinds of increases we're seeing with newspapers are similar to what we'd expect from other media. But from a national advertiser's standpoint, newspapers are starting out from a distinct disadvantage. Any rate increase on top of the rate differential makes them less attractive.

On dollar volume discounts: That's what we've been hoping for, but whether it will happen remains to be seen. On one hand, newspapers say they want more national advertising, but on other, they've done very little

to make us come in. So I don't expect to see much movement on the issue, especially since national advertising accounts for so little of their volume.

On the future of advertising: I think dollar volume discounts and developing positioning packages would mitigate some of the concern over pricing. If newspapers can indeed put into practice positioning arrangements, they'll see more money.

But I don't think newspapers are moving fast enough on this. There's much too much time spent in commitments. I applaud the sentiment of getting things together, but there doesn't seem to be much commitment on part of publishers to uphold the suggestions that are being made. They're fine efforts and all, but it's sort of like trying to move an elephant with a stickpin.

On other options: Newspapers are a mass coverage vehicle. I can build the same kind of base of efficient exposure with tv. If I feel newspaper costs are getting out of line, I can move comfortably into spot tv or spot radio, depending on nature of assignment.

It's true that when you get into more product-specific advertising where more detail is required, particularly in technical areas, it gets harder and harder to move away from newspapers. But I don't think any medium is indispensable. There are always alternatives. You can always make sacrifices.

plication: It takes money. Among other things, new reporters mean new editing terminals at a time when the industry is making a widespread commitment to expensive technology. But, Rood continues, "We're expanding our news-holes and trying to give readers more readable products with better organization. We're going to be charging you a little more, but we're going to be giving you a lot more."

Some planners don't see it that way. They know that, as rep firm Sawyer Ferguson Walker's president Roy Blackfield spells out, newspapers weigh five justifications for raising rates: increases in the cost of living, increases in operating costs, increases in salaries, pressures from competing papers, and increases in circulation. "If your circulation increases well," he notes, "you have justification to raise rates above the cost of living."

Planners agree. Cost pressures from materials they can understand; rate hikes unbacked by circulation increases and subscription and newsstand price jumps they cannot. Planners are quick to point out that other than the Gannett Co., which doubled its USA



"Newspapers can't raise costs without starting to pass them on to subscribers as well."

*Howard Nass
Senior vice president/media,
Cunningham & Walsh Inc.*

Today price to 50¢ within two years, newspapers have been reluctant to pass on costs to the consumer for fear of losing the circulation numbers that attract advertisers.

"Some costs are beyond newspapers' control," concedes Howard Nass, senior vice president/media at Cunningham & Walsh Inc. "But newspapers can't continue to raise costs without passing them on to the subscriber as well. Newspapers should earn the right to charge more by improving their products and increasing their circulation. Then let them come to us when their costs are up and say they'll absorb some while asking the reader to absorb some and us to absorb some. Too often, just because it's a year later, they come to us with the same paper and circulation losses, put forth the increase and that's that. It's awfully tough to swallow."

Nass gets nothing but agreement from Jack Cohen, vice president and director of print and outdoor buying at Doyle Dane Bernbach Group. While braced for increases of 8% or 9%, he insists, "is it justified? — hell, no! We're not getting any more circulation for the money." Over the past five years, he points out, newspaper circulation on the whole has climbed 12% while rates have bounded 111%. First Boston Corp.'s Kevin Gruneich predicts only a 1% climb in newspaper circulation for 1987.

Some committed, veteran newspaper users appear resigned to routinized rate increases. Philip Morris' director of corporate media, James Thompson, is barely tweaked by newspaper demands. "What's the story?" he quizzes. "There's really nothing new about it. Media costs will go up; it's just a fact of life." And as First Boston Corp.'s Gruneich notes, the demise of two-paper battles has left one metro daily dominant in most major markets; that paper's near monopoly makes its cost hikes harder to challenge. "If you need the market and there's only one paper, you're stuck with it," affirms Bud Shields, newspaper buying supervisor at Campbell-Ewald Co.

Still, newspapers' routine rate rises are adding allure to other media whose own cost problems ought to be oppor-

TOP 10 NATIONAL NEWSPAPER ADVERTISERS—1985 (thousands)

	1985	1984	% change
1. General Motors	\$140,979	\$109,359	+22%
2. Philip Morris	78,031	69,023	+12
3. Ford Motor	77,295	62,063	+20
4. R.J. Reynolds	73,321	101,990	-28
5. American Tel & Tel.	57,210	58,200	-2
6. Chrysler	42,000	34,962	+17
7. IBM	30,610	36,036	-15
8. People Express Airlines	29,212	6,223	+79
9. B.A.T. Industries	28,425	25,317	+11
10. Eastern Airlines	28,838	18,610	+35

Source: Media Records

HAYES COHEN

tunities for newspapers. Shields contends that newspapers could pick up dollars as the ever more costly television medium continues to fractionalize and its true audience for programing and commercials gets harder to track. "But advertisers are looking for efficiencies," warns Doyle Dane Bernbach's Cohen. "If they aren't there in newspapers, they're looking more at other media."

The main beneficiaries? Planners agree that cost-conscious clients are eyeing direct mail, outdoor and magazines. That trend is established, they admit; but newspapers may have reached a dangerous threshold of rate rises. "It's getting to the point where the medium is pricing itself out," notes one media director who is preparing clients for 10% rate increases.

Cutting markets and frequencies is another way out. Agencies who lack newspaper specialists, notes Campbell-Ewald's Shields, have to pretty much take higher rates and work with them. For others, he notes, ad sizes

may be trimmed, frequencies may be cut, or papers may be eliminated — an increasingly painful alternative given the proliferation of basically one-paper markets. Other clients, he expects, will put more of their market budgets into spot tv and spot radio.

Advertiser interest is also heightening in pre-printed inserts, a pseudo-competitor that newspapers helped spawn. According to the Newspaper Advertising Bureau, preprint volume has grown 39% since 1980. The expansion shows no signs of slowing. This year the Sunflower Group has made the first foray into mass preprint distribution in rural C and D counties. To ward off such competitors as direct-mail circulars and shoppers, newspapers have kept preprint rate increases significantly below their regular rate hikes. Publishers attest that they'll continue the trend this year.

"It's a paradox" to Tom Reddy, president of Newspaper Co-Op Advertising. "Newspapers would rather have ROP than inserts, so they raise their

ROP rates higher than their insert rates." While preprints carry little cost to newspapers in return for high profit margins, they shrink newsholes by deflecting ROP ads. Some executives such as rep firm Cresmer, Woodward, O'Mara & Ormsbee Inc.'s president States B. Tompkins look for couponers to counter the clutter in preprints by resuming ROP schedules. But product exclusivity and high redemption rates — 50% higher than for ROP coupons, Reddy reports — are luring advertisers who can afford lead times as long as eight weeks.

By far the biggest stumbling block for national advertising is newspapers' time-honored practice of awarding their more-regular local advertisers radically lower rates and first choice on guaranteed positions. Agency and advertiser anger over the rate differential only heated earlier this year after the American Association of Advertising Agencies published its bi-annual rate differential study. Not only had the average differential jumped 4% to

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64.6%, major metropolitan papers with over 250,000 circulation spread their differentials by 7.2%, to 94.4%, more than any other circulation category.

Strides by some papers offer advertisers only a glimmer of hope. Earlier this year in a test called Laboratory Witchita, the *Wichita Eagle-Beacon*, a Knight-Ridder paper, offered national advertisers local rates for the rest of the year on any full-page ad that ran six times. Advertiser response wasn't overwhelming. Other papers aren't itching to follow because of a lesson from the 1960's, when nearly 80 papers that maintained one rate saw advertisers put the savings into papers in other markets.

As a result, national retailers look to beat the higher rate by such tactics as assigning buying tasks to local outlets — much to the dismay of traditional newspaper rep firms, who suffer because their contracts call for commission only on business placed at national rates. Agencies and advertisers are also waiting for a move toward discounts

based not on frequency but on dollar volume, which would reward national accounts for paying higher rates.

The industry's closest thing to dollar volume discounts is Gannett Co.'s multi-media package, whose sellers are more than willing to reward big spenders with added space. Now that the fast-expanding Gannett has added such major-market papers as the *Louisville Courier Journal & Times* and the *Des Moines Register*, agencies such as Campbell-Ewald (agency for General Motors) are finding the package more attractive and waiting for other newspaper chains to offer group buys.

"The future of newspapers has to be in groups," thinks Cunningham & Walsh's Nass. He expects groups to be more receptive to rate requests as well as to such creative ideas as unique positions. Inherent in their size are efficiencies that come through in bulk purchases, and a wealth of marketing knowhow that can be transferred from market to market.

Like publishers, agencies and ad-

vertisers have their eyes turned toward the proceedings of the industry's Future of Advertising Committee. Headed by some of the sharpest, youngest and most self-critical executives in the industry, the 10 task forces have already started wheels rolling on standard national advertising positions, standard invoicing and pricing suggestions aimed at national advertisers, to name a few things.

But for media planners and newspapers' national reps, the hope sparked by such moves doesn't soothe the sting of this year's cost hikes. For now, reasons Campbell-Ewald's Bud Shields, "if we run an ad in a newspaper and it gets the people and moves the products, that's what counts." He sighs. "You just have to sort of take it."

Less resigned, newspaper supporter Jack Cohen sounds a sharp warning: "It's getting to the point where we may have to start considering newspapers as a last resort — to be used only when the crunch is really on and we have to hit the customer that morning." ■

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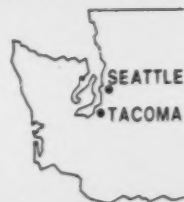


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THE RACE GETS GOING

New strategies and creative options are helping the medium offset

by Les Luchter

The outdoor industry will be trying its best to breathe in some fresh air in 1987. For despite a 14.7% increase in business in 1985, to \$1.2 billion in revenues, the industry is acutely aware that it faces a continuing loss of business from its two main ad categories — hard liquor and tobacco. An effort is now underway to hold price increases to a minimum as a lure to bring in new advertisers.

With energy and real estate costs softening in most areas of the country, many outdoor participants, including agencies, advertisers and operators, agree prices should not go up by more than 6% on average. This would follow hikes of approximately 8% for the last two years. "Outdoor is reflective of a lot of other media," says Bill Wilkins, president of the Institute of Outdoor Advertising, alluding to this year's expected lower price hikes.

The main challenge is how to replace those tobacco and liquor dollars. Combined, the tobacco and liquor classifications made up 40% of the outdoor industry's revenues in 1985, down from 52.4% in 1982. Even with hard liquor companies transferring ad spending into new wine cooler lines, notes Wilkins, outdoor still loses out since these new drinks can use the otherwise forbidden tv medium.

To build support for its medium on Madison Avenue, the 12-year-old IOA intends to begin a concerted marketing effort. As part of its plan to raise its profile, the group will separate from its parent/lobbyist organization, the Outdoor Advertising Association of America, as of the first of January.

On its own, the IOA intends to staff

up and speak louder once it gets increased underwriting from its member companies. The association is counting on strong support from its two largest members, Patrick Media Group and Gannett Outdoor Group, which have both brought a new flavor of aggressiveness to outdoor selling. Gannett has set up a network of outdoor companies to facilitate ad buying and Patrick recently acquired the mammoth Foster & Kleiser from Metromedia.

Putting the best face on things, Patrick Group president Jerry Joyce comments that the cutback in tobacco and liquor advertising presents a great opportunity for other categories. "Some of the best space in the country," tied up for years by the big guys, is now becoming available, says Joyce. Indeed, the hope is that not only will new marketers start bidding for these locations, but rather than give up such highly prized space, Philip Morris and R.J. Reynolds may start "slipping in" ads for their General Foods and Nabisco divisions, respectively.

Their hopes are so far unfulfilled. Cathy Hodges, vice president of media and marketing at the IOA, reports no signs of increased business from any of the two companies' divisions.

While packaged goods spending is increasing, categories showing the heaviest increases in outdoor spending, according to the IOA, include health-care, telecommunications, retail and the tv networks. But there's a good "potential for expansion" in packaged



goods, says Wilkins. His optimism stems from the large outdoor campaign for NBC's *A.D.*, a Procter & Gamble Productions mini-series which not only started the heavy use of the medium by the networks but also "led us to P&G. We can [now] walk into packaged goods people with a more positive presentation," he explains.

The packaged goods involvement may also extend into co-op, another growing outdoor category. Wilkins notes that while packaged goods have always co-oped with newspapers, he has heard much talk recently that P&G will offer co-op dollars for outdoor.

To help new outdoor advertisers cope with the unfamiliar world of billboards, Gannett formed Outdoor Net-

FOR NEW BUSINESS

liquor and tobacco losses.



ILLUSTRATION BY ANDREA BARUFFI

work U.S.A. last September. It allows advertisers to deal with one source for placement with 34 member companies covering up to 300 markets (including 15 Gannett markets). Rates are still set by individual companies, but there's only one contract and invoice. All sites have guaranteed 18-hour illumination. Gannett promises advertisers independently generated proof-of-performance audits, and offers an option of having production included in the deal. Production costs are thus stretched out over the time the program runs, says marketing vice president Marc Kalan, and lead-time is only five weeks from receipt of artwork to posting. In the past, lead time has stretched to mean several months. Nestle's Taster's

Choice, Chiquita bananas and Good-year truck tires have already used production-included rates, he reveals.

Since February of this year, when the network really picked up steam, sales have been about \$2 million a month, says Kalan. "We anticipate \$20 million in sales by the end of 1986." Deals have been made for about 15-member companies covering about 74 markets, he adds. Kalan believes an all-out effort can turn outdoor from a "sliver to a slice" of the ad pie within a year or two, or from 1.2% of total revenues to over 2%.

Rates for Gannett's own plants will probably go up on the lower side of 6%-8% this year, says Don Davidson, Gannett Outdoor president. "And it

will vary from market to market."

Davidson blames lease costs for most of the rate jumps — "There are huge increases far beyond inflation" — and adds that insurance costs seem to be harming outdoor more than other media. Lease rates have risen 28% since 1984, he notes, while insurance costs for workers and the boards themselves have soared 88%.

Meanwhile, the Patrick Group may be moving out-of-step with its industry brethren. It hasn't yet said what its rates will be for 1987, but allows that it thinks industry-wide, increases will be in the 9% to 9.5% range, a calculation much higher than others'. What's to blame for this price inflation? Higher "occupancy" rates, says Larry Cognetti, marketing vice president of the Patrick Group. This is caused by an increase in local and regional advertisers and by new users who like outdoor's "low CPM," he says.

But even the IOA's Wilkins doesn't agree with this assessment. He likens the outdoor situation to a hotel: "When it's close to full, you're able to do a lot more with rates." But, he adds, "that does not exist today. If we were to maintain a level of occupancy, our increases would have stayed in the 8%-9% area [of a few years back]."

Agencies and advertisers are unanimous in their belief that increases above a minimum level are not justified this year. Lease and labor costs are probably the two biggest factors affecting outdoor prices, says Dan Pearson, director of media for R.J. Reynolds, outdoor's biggest advertiser, but he's unsure if that pressure will start to influence costs to advertisers. "Lease costs may be the sticking point," he concedes, noting that as

more competitive outdoor companies have emerged, and they have begun competing for the same spaces, "there's been a lot of upward pressure." Nevertheless, he thinks that because of other industry conditions and trends, prices should rise 5% or less in 1987, slightly less than in 1986.

Bernie Stolbof, vice president of House of Seagram, the distiller's media arm, says outdoor increased 6.5%-7% in 1986, and he's heard estimates of 5%-7% for next year. Outdoor has kept its rate hikes lower than other media, Stolbof explains, because of "vulnerability" caused by the cutbacks in liquor and tobacco dollars.

Bob Nyland, president of Outdoor Services, a buying group, says 1987

outdoor price increases should not be over the 1986 rate, which he placed at 5%-6%. The two biggest factors affecting rates, he feels, are labor costs and "landlords who want to get a percentage of revenues from a location as opposed to taking a fixed lease."

Real estate costs, including taxes, are at the root of outdoor's rate hikes, echoes Jack Cohen, vice president and director of print/outdoor media buying at Doyle Dane Bernbach. He feels prices will rise 6%-8% compared with 7% this past year. "They pay more for leasing boards," says Cohen, "and it will be passed on to the advertiser."

Both Cohen and Gordon Asch, president of Asch Advertising, an outdoor buying service, point to a trend toward

using other out-of-home media besides traditional 30-sheet posters and painted signs. Such media as transit and bus shelters are appealing, Asch says, "because everyone's becoming more interested in having less waste dollars and waste circulation. These media have that capability."

Indeed, Connie Barry, president of both the Shelter Advertising Association and Transtop Minnesota, expects her company's rates to be up only 2% in 1987. This compares to a 4% increase this past year. The shelter industry average this year was 5%, she says. Unlike other out-of-home media, Barry notes, "liquor and tobacco never were a great percentage in shelter."

John Boisclair, executive director of

A CONVERSATION WITH PETER RIORDAN

Peter Riordan is vice president of BBDO, New York, and manager of its out-of-home media group.

On rate increases: Standard outdoor will again go up faster than the Consumer Price Index — less than 6% on the rate card, compared with 6%-7% last year. But actual rates may have been considerably less because of the desertion of the tobacco category, particularly in larger competitive markets. Recently there's been a lot of negotiability. Tobacco companies had so much money to spend that they were less interested in cutting rate deals than in getting the best positions.

On factors behind increases: Real estate seems to be going up nicely. And there's a lot of turnover in plant ownership. Just the financing costs alone are going to be contributing to the costs of billboards. In transit, there has been constant competition for franchises. We presume there are inflators in them, and a lot of them were signed in the double-digit era.

On technical trends: None of the bright ideas make anything cheaper. The basic board is the simplest and easiest to execute. But you can now get signage cheaper with printed bulletins



in place of painted ones, allowing advertisers to buy for shorter terms — two months rather than four to 12 months. They'll buy a few big units instead of a lot of little ones. The new things in outdoor are primarily in the ownership area. Signs themselves don't change much. It's getting more national business and increasing its grip on the ethnic category. Most ethnic-oriented agencies think of two media first — radio and eight-sheet. They're signs that keep the message inside the neighborhood.

On bus shelters: In New York, the franchise until very recently was static at about 500 shelters, and no action was going on other than prices rose rapidly and consistently. Now, new shelters are being built, but not being sold. The only people paying to build and operate shelters are advertisers, but cities will not necessarily put shelters where the target groups are. You don't want to advertise in Coney Island or Fort Apache, but the city wants to make sure all the voters get their shelters.

On specialized boards: It's almost impossible at certain times of the year to get any positions on the New York commuter rail lines and at major airports. You're a lot more likely to pay rate card for these guys.

On ad sales softness: Too much will lead to a shrinkage of inventory and bring unit pricing up again. And we don't like to have less to work with. There will always be enough magazines and radio stations, but outdoor structures take time to build and get permits on.

On shopping mall directory ads: It's a terrific franchise in just the right place, and unit costs are cheap. I'd love to steer some of our advertisers there.

TOP 10 ADVERTISED BRANDS IN OUTDOOR-1985

	(000)	
1.	\$40,816.3	Winston (Regular)
2.	30,926.4	Marlboro (Regular)
3.	27,996.6	Salem (Regular)
4.	26,156.6	Camel Filter
5.	18,733.6	Kool (Regular)
6.	14,024.0	Newport Menthol
7.	13,099.4	Richland (Regular)
8.	12,215.2	Vantage Kings (Regular)
9.	11,063.0	McDonald's
10.	10,520.0	Benson & Hedges Deluxe Ultra Light

TOP 10 ADVERTISERS IN OUTDOOR-1985

	(000)	
1.	\$152,381.6	R.J. Reynolds
2.	107,186.2	Philip Morris
3.	40,273.0	Loew's
4.	36,095.8	Batus Industries
5.	24,886.4	Seagram
6.	15,177.8	General Motors Local Dealers
7.	12,334.6	American Brands
8.	11,525.4	Grand Metropolitan
9.	11,317.3	Hiram Walker
10.	11,063.0	McDonald's

Source: Institute of Outdoor Advertising

HAYES COHEN

the Transit Advertising Association, expects an average rate increase of 8% in 1987, which he terms comparable to recent years. But he stresses that increases can vary widely from market to market. "In Tulsa, where the transit business is relatively weak, you can't go out and ask for a 20% rate increase. But in Manhattan and Washington, D.C., which are in a sold-out capacity, you can maximize the increase." While liquor sales in transit are down, Boisclair says tobacco is not. "But the industry realizes it's not healthy to be dependent on one industry."

Ronald Wagner, executive director of the Eight Sheet Outdoor Advertising Association, expects 1987 rate increases of 4.5%-6.5%, compared with 8% increases in past years. As Wagner explains it, real estate costs have stabilized at 10% annually, there are no lighting costs to contend with and construction costs are much lower than for 30-sheets. The eight-sheet business is booming, he says, with sales up 60% in the first quarter. "We lost Kool [cigarettes, a Brown & Williamson brand], but that's just about the only national advertiser that gave up."

As the alternative out-of-home media gain respect and business, they're following traditional outdoor into new creative approaches and advertiser categories. Bob Nyland notes that several companies are now starting to use backlit eight-sheets, and Dan Pearson says RJR is starting to use backlit transit six-sheets. And Wagner says his "heavily tobacco and liquor-oriented" eight-sheet medium is seeing a lot more food advertising and even tests for such products as Procter & Gamble's Luvs diapers.

One promising industry development that could cut costs and turnaround time is the emergence of computer painting. This will give short-run advertisers who want to buy bulletins an alternative to the high cost of printing poster paper or having a paint crew do the work on-site or in a shop. Larger outdoor users might still find it more convenient to print large quantities of paper at reduced rates, but IOA's Wilkins notes they may be willing to pay more for the quality control of the computer process.

Another trend to note is the buy-up of many outdoor companies. Other me-

dia, such as radio, have always been a large user of all the out-of-home media, and several publishing and electronic media companies — such as Heritage Communications and Morris Communications — have now started to buy outdoor companies. But a different kind of inter-media synergy which can actually make advertising more cost-efficient is also underway — the use of out-of-home media in other ads. Piedmont Airlines, for instance, showed an exterior bus sign in a recent newspaper ad, and billboards have popped up in tv spots for Honda, Coke, Coppertone and Budweiser.

Anything that reduces costs will be fine with Seagram's Stolbof. "While I consider outdoor rates fair in terms of what other media are asking," he says, "I still consider the increases all media are asking are too much, based on the costs of doing business vis-à-vis demand. The distilled liquor industry is under a lot of pressure now," Stolbof notes, giving increased taxes as an example. "Why should they [media] ask for as much as they do when the CPI is substantially lower than the quoted increases?" ■

COMPETITION COOLS A FRANTIC PACE

The yellow pages industry adjusts to new business realities.

by Carl Weinschenk

The breakup of the monolithic Bell telephone empire into seven regional entities more than two years ago unleashed a struggle for the directory spoils worthy of a millionaire's contested will.

One side effect of the bitter fight is the catapulting of the yellow pages business into 20th century media reality, and a part of this new awareness is a slowing of rate increases as competition heats up and price becomes a weapon.

"Rate increases seem to be not as gigantic as they were in the past. I think this is due to the competition that is coming into the marketplace," says Bob Lamb, the vice president of marketing for Telephone Marketing Programs, an international firm that broke the \$100 million billing mark during the year. "We noticed from all the advertising we placed in 1985 that the rate increase was just a little more than 8%." That figure represents the consensus on just where rate increases settled out in 1986, and it represents what can be expected for 1987.

The ad revenue produced by yellow pages will continue to grow, due also in part to increased awareness among national advertisers of the importance of a presence in local books. Revenues for 1986 are expected to reach \$825 million, up 18.7% from last year's \$695 million. Fred E. Smykla, executive director of the National Yellow Pages Service Association (NYPSA), beams that 1987 revenues may break



ILLUSTRATION BY ANDREA BARUFFI

YELLOW PAGES

the billion dollar barrier and top out at about \$1.07 billion.

In the current ad environment, 8%+ increases seem beyond moderation, but the past has seen rates in this medium take much bigger steps. Smykla reports the industry posted annual rate hikes of 14% as recently as the beginning of the decade.

Bill Frank, president of The National Yellow Pages Agency Association, is basking in this moderate climate. "I think there is a trend toward more price stability and less-radical increases. Hopefully, that will continue."

Another insider who sees price moderation is Eldon Marwede, the yellow pages manager for Campbell-Ewald in Detroit and a member of the board of directors of the National Yellow Pages Directory Association and a host of other industry councils and organizations. "In 1986 we had figured that the rate increase would probably be between 8% and 12%," he says. "They seem to be coming in at about 10%, heading closer to 8% than to 12%."

Perhaps the definitive word on pricing is offered by Smykla, who bases his observations on a sampling of 600 of the 6,359 directories that belong to his organization. "In the last five years the rates have gone down to about 8.7% [increases]. That's the differential we saw, one year over the other. There could be some pockets," he says. "But on average it comes out to that."

On other fronts, the turbulent world of yellow pages advertising is likely to continue to heat up before it settles down. The main reasons are the inter-cene attacks by one Bell stepchild on the territory nominally controlled by another. Along with this comes a call from national advertisers and their agencies — who account for only 10% to 15% of yellow pages ads but represent a huge potential source of revenue — for more detailed demographic and usage data and standardization of heretofore haphazard mechanical specifications. All three factors will undoubtedly exert their own varying degree of influence over the cost structure during the next several years.

There have always existed alternatives to the Bell directories. Only re-

cently, however, have the competitors been direct or indirect Bell offspring capable of offering a more coherent picture of the medium to media people and their national clients.

The most celebrated foray into another company's turf was Southwestern Bell's Manhattan move. The field trip was obviously a big-bucks decision and one not taken lightly. Don Fisher, Southwestern's staff manager for public relations, said two things led to a Broadway production. "First off, we identified a consumer/advertiser need

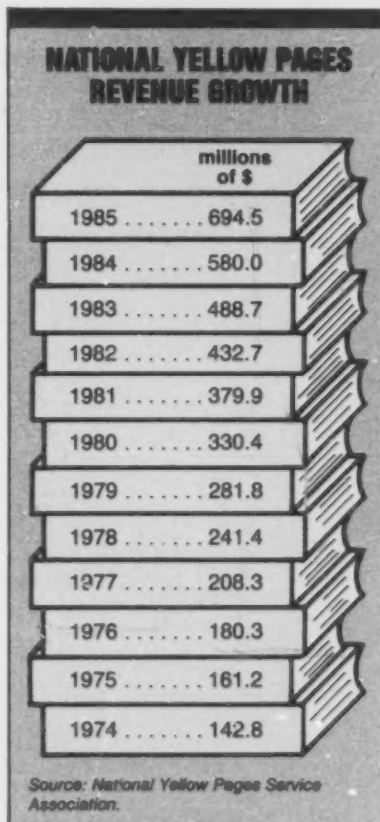
there to make money. It was duplicate coverage or sort of duplicate coverage. The Southwestern Bell books could conceivably fill a very real need."

The major difference between the Nynex and Southwestern entries is that the latter offers both consumer and business-to-business sections in one book. The movement of so many books outside of the parent utility's area, however, is based on more than packaging changes. It is indicative of a widespread belief that money can be made by offering advertisers and consumers a choice.

The other message that came through in 1985 and the first months of 1986 is one that will have an immediate effect on pricing. It is apparent that the new non-utility books are often better capitalized than their predecessors, either because they are direct products of out-of-area Bell companies or are published by concerns the out-of-towners are picking up and funding. This, according to Lamb, can affect the quality of the book and its chances for success by positively affecting its distribution, sales effort, marketing input and advertising budgets. "Traditionally," he observes, "independent directories have done very little advertising, basically because they didn't have the capital to spend. Now, with a big Bell regional company behind them, that could change dramatically." If the advertising yellow pages publishers do is an accurate barometer of the level of the major market struggles, one need only turn on a television set in New York City to see a slew of clever — and not inexpensive — advertisements.

The non-utility books are establishing a toehold by cutting rates. Edward W. Lederer, the vice president of marketing and sales planning for Donnelley Directory, indicated new entries are wont to knock off anywhere up to 80% from the incumbent's price.

The new-found competition has lowered prices but added the burden of choice to the lives of people who work for advertisers and agencies. Notes Frank, "I think it leads to price stabilization, but it also complicates other situations. How do you recommend to a client which directory to go into?



that was not being met. That's the key. We are not going to produce a book for the sake of producing a book. The second reason is that we can do so successfully and profitably."

Maryann Sapos, a senior vice president and general manager of the directory division of Hutchins/Young & Rubicam in Rochester, New York, feels the move by Southwestern may have been on the mark. "Last year at this time, when we were speaking about the secondary and tertiary books in a market, they weren't really filling a need," she said. "They were simply

YELLOW PAGES

That is not so easy, particularly if you have a first-year directory in a given marketplace. Logic dictates that, number one, you continue with the established directory and, if anything, go with a minimal form of advertising in the new directory and try to establish some way of tracking results."

Sapos agrees that the days of easily discounting secondary buys have faded like an overseas dial tone. "What you are going to end up doing is making one of a few choices: Taking all your advertising and making your spending exactly the same as in your current buy, or switch it to the new book — which I don't recommend — or you could put smaller units in both books and hedge your bets. Or you could spend a little more money."

In an atmosphere where suddenly a tremendous amount of money rests on decisions that are no longer automatic, a move is underway to improve the measures of usage currently in the hands of decision-makers. "Right now," explains Marwede, "there is mounting pressure for the directories to produce a syndicated, third-party re-



"In the last five years, the rate increases have gone down to about 8.7%."

Fred E. Smykla
Executive director,
NYPSA

search measurement of competing directories on the market, both utility and independent." He adds that the studies must measure effectiveness, reach and usage. "This impartial, comparative measurement of competing directories is something that is going to have to happen, and the sooner it is accomplished, the better," he concludes.

The call for better information is almost universal within the agencies and industry associations. "I think," predicts Sapos, "that you are going to see a lot better marketing information, usage information and research being done to sell their books. And that is something that has been lacking in this medium for a very long time." She indicated that Pacific Tell is already reacting to the higher level competition with improved demographics. The cry for better research has been mostly going in one receiver and out the other, however. "[They are] things that agencies have been asking for for a thousand years and can't get," says Sapos. "You get a lot of 'Yeah, we know we better do it' and 'Yeah, we have a committee assigned to it' and that kind of

A CONVERSATION WITH MARYANN SAPOS

Maryann Sapos is the general manager of the directory division and a vice president of Hutchins/Young & Rubicam in Rochester, New York.

On the last year: I guess the biggest change is that a utility has entered markets beyond their own . . . and is coming out with a directory that would be very viable in the market.

On Southwestern Bell's Manhattan move: What they are doing is offering what is a more attractive buy to an advertiser in that you can buy one book rather than two. They have a reputation and money behind them. The possibility of it doing well is very real and not to be discounted.

On improved research: I think that is one of the benefits that is going to come out of the whole thing . . . You



are probably going to see an effect on price. I think the other thing you will see is a lot better marketing information, usage information and research being done to sell their books. That has been lacking in this medium for a very long time.

On the specialty books like the Silver Pages: Their viability is still up for grabs as far as we are concerned. They have not been the big smash wahoo hit they were predicted to be. I think they've yet to really prove themselves.

On the choices: In many cases you'll have headings duplicated in the consumer book and the business book. An advertiser will say, "Oh, I've got to be in both." That's been a problem. I don't think you are going to see that go away real fast.

On newcomers: The first or second year that they're vying against the utility, they could cause a great deal of confusion in the field. Now you'll have the agency or local advertiser looking at it and saying, "Here's this potentially viable book." You really can't not be in it.

thing. I do think you'll see [improvements]. Pacific Tell was a real leader. They took a proactive role there and they did a terrific job."

Standardization is another issue no longer on hold. The Association of National Advertisers and the American Association of Advertising Agencies have started to deal with the problem. The two organizations are scheduled to meet with NYPSA at the end of July to discuss their jointly prepared position paper. The paper, describes Smykla, is split "into three general areas. One is the standardization of units and ad sizes, very much akin to what the newspaper industry did several years ago. The second is on the distribution and auditing, again very similar to newspapers. The third is to provide surveyed information about telephone directory usage in general."

Beverly Plyer, the staff executive in the media relations division of the AAAA, has been involved with national standardization drives before. "What we are asking for is generalization. This is something we worked on with the newspaper industry and we certainly think it is critical for the telephone directory medium," she says. "That is what our concern is, that we can send an ad in and know it will be reproduced the way it is sent."

Marwede explains that such standardization is also a pricing issue. "There are over 6,000 directories. Right now if somebody is using national display advertising or trademark advertising, there is the cost of producing five different size ads for five different size directories. We are working on publishers and I think they are starting to realize that if they are to go after more national monies — and I think they want to — they are going to have to make it easier for national advertisers to use their medium."

Standardization will require retooling in some cases, according to Smykla. Though industry unification of mechanical requirements is often compared to a similar drive in the newspaper industry, two distinctions exist. The first is that newspapers do their own printing while, for the most part, directories use independent printers. This, of course, would complicate

the implementation of new specifications. The other difference is that newspapers are not usually in direct competition. Comments Lederer: "In an environment that's exploding competitively, I think that [standardization] is totally contradictory to differentiation. I don't think they have much of a chance for standardization because everybody is going to be coming out with something to differentiate their product, not make it the same."

The drive by NYPSA, the ANA and the AAAA to promote national standards on specifications — Smykla says even the nomenclature is inconsistent — and the desire for more demographics is symptomatic of a desire to attract more national advertising. Sapos, among others, feels national advertising is a coming thing. "The yellow pages is becoming like the other media, where you have more than one viable source in a market and there is true competition for the utility books . . . [now the agency can say] 'Okay, my client spends X number of dollars in

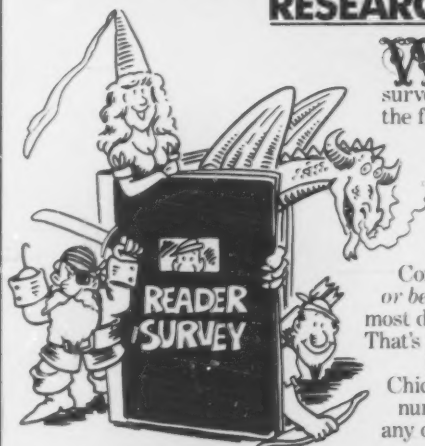
all your books. What can you do for us?' That was unheard of in this industry, but we are starting to look into it for our clients because you do it with every other media," she said. "You've never really been able to do it with the yellow pages because it was essentially a monopoly. It's no longer that way."

The world of yellow pages advertising is changing and will continue to change throughout, probably, the remainder of the decade and beyond. The rude awakening caused by the legal decisions of several years ago has forever changed the direction of a book that, like the Bible, is represented in some form in virtually every home in the country.

"The top-line sales orientation of yesteryear is being replaced by corporate demand for visible profits. I think this is good for both the medium and the advertisers," says Marwede. "The yellow pages industry used to put you to sleep compared to what it is now. It has never been so alive. It is a new ballgame." ■

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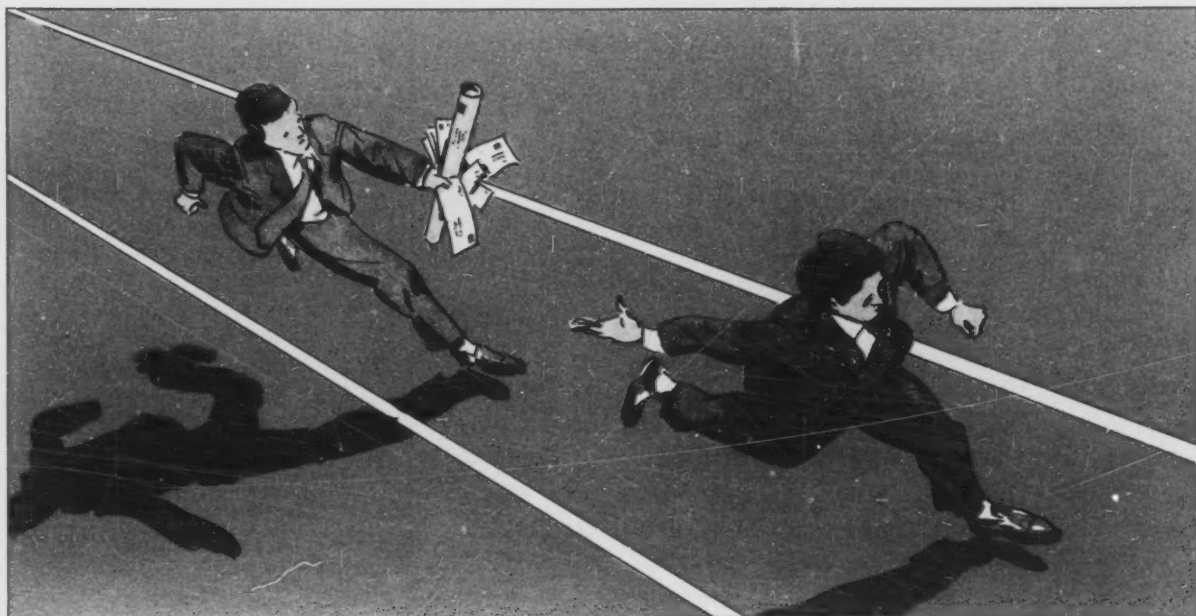


ILLUSTRATION BY ANDREA BARUFFI

IT LOOKS LIKE MORE OF THE SAME

by Jerrold Ballinger

After contending with the hefty jump in postal rates of 1985 — up some 13% for third-class mail — and other cost hikes such as paper, direct marketers incorporated these factors into their 1986 budgets and settled into a year of cost stability. Another quiet year is predicted on all fronts for 1987.

The only increases generally seen are in line with the anticipated general inflation rate of 3% to 4%.

Little seems to have slowed the trend to direct marketing. Predictions made by some that mail volume would decrease this year because of the high costs proved to be unfounded. Mail volume for the first two quarters of the United States Postal Service's fiscal year, which ran through March, reveal a 16.8% boost in direct mail pieces

over the same period the year before.

Indeed, this year's *Mediatrends*, published by Doyle Dane Bernbach/ New York, reported that, in 1985, for the first time, direct mail became the leading medium employed by national advertisers. The report pegged direct marketing's growth at 13% for the year, accounting for 29.2% of all ad expenditures by national marketers. Another 10.7% jump is expected for 1986. Television had a 26.6% share, according to the report.

Sy Okner, president of Montgomery Ward's multi-million-piece mailer, Signature Insurance Group, notes that greater use of postal bulk rates and pre-sort discounts have helped to compensate for postal increases. "Mail volume is up, but we are mailing more often to a smaller number of targeted pros-

With postage and paper under control, only inflation is expected to affect this year's costs.

Direct Mail Advertising Volume—1985

Expenditures: \$15.6 billion

% Change: 13%

Source: McCann-Erickson

Sales generated by mail order 1985

	Revenues	% change
Total	\$126 billion	+12%
Consumer	\$ 59 billion	+10%
Business	\$ 35 billion	+16%
Charitable	\$31.9 billion	+ 6%

Source: Direct Marketing Magazine

pects," he says.

No postal rate increases are in the offing for 1987, according to Gene A. Del Polito, executive director of the Third Class Mail Association. At the end of the fiscal year in September, it is anticipated that the Postal Service will have a surplus of \$800 million and another \$500 million at the end of the 1987 fiscal year, which would eliminate any rate increases.

Printing prices have been low, paper has been stable and so have list rentals. The same stability is expected for 1987.

No significant changes are anticipated for other direct marketing instruments — broadcasting, print, co-op packages or telemarketing.

"I don't see any signs of stalling in the use of direct mail," maintains Robert J. Coen, senior vice president at McCann-Erickson Worldwide, New York, who thinks advertisers will allocate 10% more of their advertising budget dollars to the medium this year over last year. "Paper and mechanicals have been in line with inflation, but," he notes, "some mailers have been re-

ducing the weight of their packages, resulting in the average per-unit cost showing a 1% to 2% rise." Coen believes production costs will move up slightly "because economies already have been squeezed out." Therefore, he predicts a 2% to 4% rise in unit costs for 1987.

Also helping the direct mail cause, say some, is the drop off in magazine advertising. According to this theory, the slowdown will help keep printing and paper costs for catalogs and other direct mail promotions low. As demand decreases in one medium, cost pressures in others should also cool.

The dip in magazine business has led to greater competition for direct marketing work, contends John Van Horn, vice president, at the Alden Press, in Chicago. Alden is a printing firm specializing in catalogs and direct mail pieces. "Don't count on these prices for 1987 because the low 1986 prices are unrealistically low," he warns. However, he does not predict any major increases for next year — "at least for the first half, when the competitive situation should remain as it is now,"

Van Horn also points to the soft paper market — "excess capacity in the mills" — as a reason for the low printing prices.

The American Paper Institute reports that new multi-million dollar machines will be going on-line in 1987. This should not only make the mills more efficient, but also keep costs down. "There is significant concern about the new capacity and it probably will not allow for price increases," states Norman Weiner, vice president, of Walker Weiner Associates, in Briarcliff Manor, N.Y. The company engages in market research, specializing in paper, printing and media markets. "Off-shore imported papers should maintain most of their newly-gained market positions over the near term," he adds. The widespread use of imported paper has acted as an effective lever on cost rises by domestic mills over the past year.

Not to be overlooked either is the progress being made in streamlining backroom operations. Suti Prakash, senior vice president of The Direct Marketing Group, New York, points out that technical improvements in letter shop operations are keeping prices down. "Addressing, stuffing and sorting, tying and bagging mail for postal optimization and regulations can now be done in one place," he explains.

Furthermore, list prices stabilized this year after increases in 1984 and 1985, according to Ralph Stevens, president of the large list management firm, Woodruff-Stevens & Associates, Inc., New York. "While prices never seem to go down, I see no pressure for any increases in 1987. Prices for selects average about 10% more, but a good selection will result in fewer pieces and a better response." Generally, low-priced lists are going for about \$45 per thousand, while the high-end hovers around \$80 to \$125 + per thousand.

Nevertheless, well-known cataloger Harold Schwartz, president and chief executive officer of the Salem, Va., mail order catalog fulfillment center, Stuart McGuire Co., Inc., sees catalogers hedging their bets. More and more, he sees catalogers entering retailing and making use of home shop-

DIRECT MARKETING

ping programs on cable television.

Catalog consultant Susan Edmondson, president of Presentation, Inc., in Greenwich, Conn., warns that traditional catalog rates for services are being threatened by general advertisers entering the direct response business. "General advertisers are accustomed to paying much higher prices," she notes. "It's really a matter of education."

Radio is not often used for direct response advertising and television costs are difficult to generalize, observes Susan Pensabene, vice president for broadcasting, Grey Direct, New York. "In most cases, they are negotiable and vary from station to station.

There are no rate cards for direct response television. It is heavily discounted, but is preemptible for spots paying full amounts." Better rates are obtained by buying in bulk and then distributing it to clients, says Pensabene. "We buy by markets, not by clients," she explains.

And as the price of sales calls soar to well over \$200 an hour, telemarketing is finding increased favor. Fred Tregaskis, president, CCI Telemarketing, Inc., New York, states that outbound costs are softening, but inbound rates have not shown much change. Campaigns using long-distance calls are lower because of the dip in telephone rates, but locally, costs are

higher, he says. "The entry of so many new telemarketing firms into the market also has affected pricing," states Tregaskis, who expects charges to level off in 1987. More telemarketing firms are bidding on a commission basis, he adds.

Co-op packages showed no increase in costs this year and none are anticipated for 1987, declares Michael Cox, vice president, Donnelley Marketing Services, Stamford, Conn., which produces the Carol Wright package. "This is a very competitive market," he points out. As an example, he notes that General Mills is considering creating its own co-op package for 1987.

Advertising agencies across the

A CONVERSATION WITH CHARLES MOZUR

Charles Mozur is executive vice president and general manager of Ketchum Direct, New York.

On the effect of direct mail costs:

The huge increase in postal rates and other high costs incurred in 1985 had no effect on the mail volume of our clients this year. Volume was up and I expect it will continue to be so next year. Our clients merely figured in the added costs when determining their 1986 budgets. No additional costs beyond inflation are anticipated for next year.

On the evaluation of direct mail:

Direct marketing clients are driven by results — not by costs. Revenue contribution is the measure and not expenditures and these can be traced within a four-month period by the responses. Mail has been paying off.

On changes in usage: Our accounts are looking for more sources outside their usual customer base. The sure things are already locked up. We are experimenting, but because our clients are so cost-conscious, we are doing more research before testing to find appropriate prospects and produce less failures.



On print: We have been testing in regional publications and in sectional runs before going national. Generally, print advertising has been down, but it depends on the type of product. Direct response print ads have held up in collectibles, catalogs and continuity products, such as most book and record clubs. I believe they are down for packaged goods.

Free-standing inserts in newspapers are up in use and cost varies from mar-

ket to market. The use of remnant ads are not tracked as far as I know, but it seems to be up. Discounts are available, of course, but there is no common thread. They are all over the lot.

On broadcasting: I am disposed toward cable television. While this is not a measured audience with absolute numbers, cable has its pockets of gold. Per-inquiry time is available and with better quality productions and with a willingness to pay a little more, there is more selective time available.

On telemarketing: Telemarketing is booming. Our use of the medium has gone up substantially. In the main, we use it as a follow-up for direct mail and to qualify leads. Overall, we find the costs about the same this year and don't see much change in 1987. Charges are tied to the amount of time for each call. In business-to-business lead generation, the appropriate party may take longer to find, the caller must be better-trained and the message probably will be longer. It should be mentioned that clients don't usually look upon telemarketing as a commissionable item. It is like purchasing any outside service. But it is a part of the program we sell to the client.



“Addressing, stuffing and sorting, tying and bagging can now be done in one place.”

*Suti Prakash
Senior vice president,
The Direct Marketing Group*

country give similar reports on 1986 conditions and expectations for the coming year. However, Murray Bowes, senior vice president, Krupp/Taylor, Los Angeles, does enter a note of warning. “Costs appear constant, but I am cautious about the economy and the inflation rate.”

Philip May, executive vice president and general manager, Cramer-Kraselt/Direct, Chicago, predicts stability in all costs, “though in television, you are always dealing with the vagaries of spot rates.” Mail volume will not drop in 1987, he claims, “but segmentation is getting smarter.”

The vice president of S.E. Nelson Advertising, Inc., Minneapolis, Peter D. Reese, suggests, “You can always work around postal rates, but the best way is not by using lighter-weight paper. Heft says quality.” Reese recommends using either smaller inserts or cutting down the pieces in the direct mail package. ■

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BRAND REPORT

NO. 135: COURIER SERVICES

HIGH FLIERS

by Carol Hall

About 100 years after the startup of the Pony Express, Federal Express made its first run. The Pony Express was reined in after just one year, put out of business by technological advances. But the express courier service industry, spawned by Federal in 1973 and now populated by dozens of companies, large and small, has been growing at a gallop for 13 years. That growth has started to slow somewhat and some industry players have experienced hard times. But most agree that as long as it bends to meet the changing needs of its market, the industry's growth prospects are strong.

According to the Air Transport Association, the express courier service industry — those overnight or next day shippers and deliverers of packages weighing up to 150 pounds — handled 192,304,000 parcels in 1985. That figure is an increase over 1984's total by



USPS has a \$20 million ad flight.

nearly 20%, the type of growth the industry has seen annually for the last several years. According to Predicasts

Inc., overnight deliveries will account for nearly 43% of all small package shipment revenues by 1988. Revenues for this industry are currently estimated to be \$4 billion to \$6.5 billion a year.

Still, the express segment is in its infancy compared to the likes of some freight forwarders, parcel post firms and, of course, the U.S. Postal Service, which have been around for decades. The freight forwarding business got a boost in the late 1940's, thanks to advances in aircraft technology made in World War II. It got another evolutionary shot in the arm in the 1960's with the widespread use of jet planes. In 1973, Federal took the industry's next leap, buying its own air fleet and starting overnight delivery.

Why has the express end of the business seen such rocket-powered growth since Federal Express blazed the trail in the 70's? "There is an information

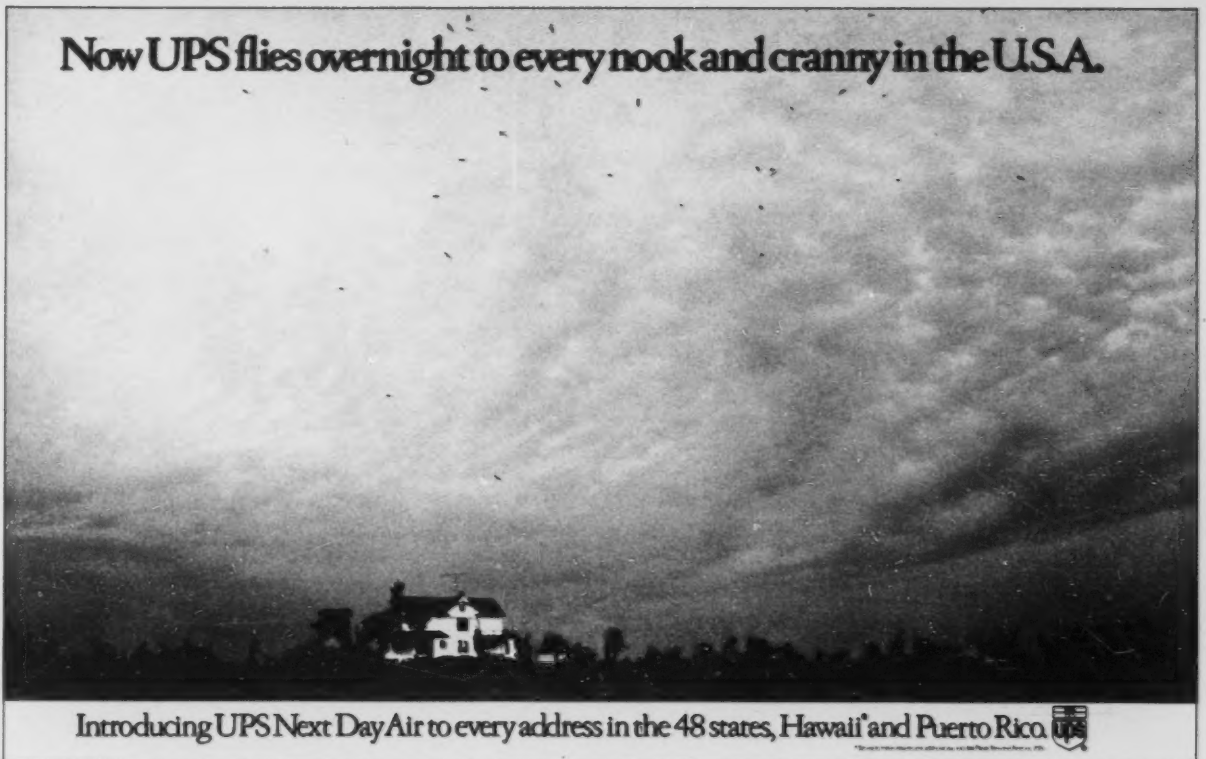
Courier Services' Media Expenditures for 1985 (\$000)

Company	Total	Mega	Net TV	Spot TV	Outdoor	Newspapers	Net Radio	Cable TV
Airborne	\$7,169.9	—	\$6,950.5	\$219.4	—	—	—	—
DHL	6,907.2	2,551.0	—	3,982.0	—	374.2	—	—
Emery	16,889.6	580.2	12,080.1	3,166.0	601.6	116.5	—	345.2
Express Mail*	—	—	—	—	—	—	—	—
Federal Express	28,526.5	2,062.4	16,605.2	6,427.8	—	3,258.4	—	172.7
Purolator	7,174.7	47.4	65.8	7,017.3	44.2	—	—	—
United Parcel Service	9,698.9	1,329.9	—	6,689.6	—	918.9	—	760.5

* figures not available

Source: Leading National Advertisers. Newspaper figures compiled by Media Records.

Now UPS flies overnight to every nook and cranny in the U.S.A.



Introducing UPS Next Day Air to every address in the 48 states, Hawaii* and Puerto Rico. 

Long the king of ground courier services, UPS is nipping at competitors' heels in the air, too.

explosion in this country and everyone wants 'it' faster," claims James McCarthy, a spokesman for the Air Transport Association. "It," he says, could be in the form of anything that fits into the small package range: cancelled checks, video tapes, blueprints, legal documents, illustrations, to name a few. "This whole business," says an industry insider, "has taken off because the size of packages companies want moved has shrunk. The critical shipments of small things is growing."

Many say that the growth of this segment is a reflection of the fundamental change American industry is undergoing. Due to the economy's growing service sector, a document or a load of micro-chips is now as "critical" a shipment as a piece of heavy machinery. Up to 60% of all overnight shipments are letters or documents.

Marketing has played what one industry observer calls an "immensely" important role in getting this business off the ground. Almost single-handedly, Federal Express — with consumer-style marketing techniques — created a desire in the business community for next-day delivery service. "Federal Express pulled off one of the greatest marketing scams in the indus-

try by making people believe they absolutely, positively had to have something right away," one industry watcher, referring to the company's ads, chuckles appreciatively.

The industry, according to Leading National Advertisers, spent \$72.7 million in LNA's eight measured media in 1985, while Media Records shows \$4.8 million in investments for courier services in 1985. J. Walter Thompson Co. says its research puts the media total more in the \$100 million range.

As important as advertising, most of which is business-to-business in na-

Purolator may have veered off course by trying to move beyond its sturdy, low-cost image to compete with FedEx, and others, in the skies.

ture, is to the express courier industry, there is one marketing tool all the leading players will say is the key to success or failure. "The company that gives the best service gets the customer," says a UPS employee. "In this business, if you don't have dependability, you won't get a second chance."

Though differences are fading, each company has traditionally had its own service niche. The cargo bays of Emery's planes, for example, allow it to handle virtually any size shipment. Federal Express caters both to individuals as well as companies. While several own their own air and ground fleets, Airborne Freight Corp. owns its own airport, which can help it expedite processing even more. UPS is known for its excellent ground operations that enable it to make deliveries virtually anywhere in the 48 contiguous states, no matter how far afield.

Yet, as competition in the industry grows fiercer, courier companies are speeding up efforts to encroach on each other's territory, and some say they are approaching parity. Some, indeed, think the industry is mature, populated by companies increasingly forced to duke it out for market share. "I don't

think the industry can get much bigger," says Bernard La Londe, professor of transportation and logistics at Ohio State University. He says that, for example, a shipper has eighteen different overnight services to choose from to move a package from Jacksonville, Fla., to Stamford, Conn., and ten for second-day delivery. "How many packages can there be?" asks La Londe. In addition, he points out that the increasing use of discounts to shippers is cutting into profit margins.

Given the exorbitant start-up costs, it seems unlikely that any new couriers will appear. In fact many observers, including La Londe, say a shakeout is imminent. "Overnight" says you've got to go whether you've got a full plane or half a plane," he says. "Some companies just have deeper pockets than others and some are bound to

Federal Express, which virtually created the overnight need, is credited with between 40% and 45% of the air courier market.

fold." Mark Solomon, assistant editor of *Traffic World* magazine, agrees. "There are too many out there performing the same task. There's going to be a big shakeout and lots of consolidation through the rest of the century." He adds, "The little guys can't, in most cases, survive" against the giants.

But there are areas of substantial growth opportunities remaining for the industry. Observers say there will be an expanding demand for courier shipments of larger packages. Some companies, like Emery, go well beyond the 70-pound small package limit. Federal, for example, has gone beyond that barrier twice, first raising its limit to 100 pounds, then 150.

Some point to second-day, or deferred, delivery as the next boom

pocket for the industry. Federal, et al, did a good job of making corporate America want overnight deliveries. But as cost-cutting becomes the order of the day at more U.S. companies, cheaper second-day service looks more appealing. And that has to make it more appealing to courier service marketers.

Clearly, expansion by U.S. couriers into international markets holds heady growth potential. DHL Worldwide Courier Express is the far-and-away leader in the overseas market. But a number of other U.S. carriers have recently taken the plunge, including the U.S. Postal Service Express Mail and Federal Express.

Opinions are divided, though, on another potential area of growth. Many wonder just how much business courier service companies can wring from the electronic transmission of data over facsimile machines, a packageless form of parcel post. Many industry watchers think "fax" machines will eventually supplant the need for much of the existing courier network in the future, and they suggest that the courier services invest in the business early on.

Others warn, however, that as the cost of facsimile equipment drops, companies may set up their own transmission systems and won't need to have a courier service transmit their documents.

Federal Express and DHL are two companies which have recently launched fax services. Though Federal's Zapmail has steadily lost money during its two-year lifespan, Federal says it has no plans to stop marketing it, insisting it is the wave of the future.

FEDERAL EXPRESS CORP.

"It's tough to target for this business," sighs Nancy Altenburg, senior manager of corporate advertising at Federal Express. She refers to the quandary faced by the large air express companies in general. Along with the growth of this industry came a shift in corporate America as to who was responsible for shipping what. Now that very light items can be as important as heavy freight shipments, the responsibility to choose a courier service no longer always falls to the shipping department. "Secretaries are as important to this industry as company

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MARKETING & MEDIA DECISIONS

to use its service.

LNA lists the company's 1985 expenditures at about \$8.8 million, a figure Fredo doesn't dispute and says will rise somewhat for 1986. The bulk of the dollars go to tv buys which, he says, are almost exclusively prime time spot, sports and news shows.

Both trade and consumer books get print attention from UPS. Among the latter category, titles include *Forbes*, *Fortune*, *Business Week*, *Inc.* and *Working Woman*. Among the trade titles: *Distribution, Handling and Shipping* and *Purchasing World*. At present, UPS doesn't use newspapers, outdoor or radio.

U.S.P.S. EXPRESS MAIL

In what may be the understatement of the year, Greg Whiteman, general manager of the expedited services division of the United States Postal Service, observes, "We're not a one-dimensional company."

Handling 46.9 million pieces of express mail that generated revenues of \$572 million in 1985, Express Mail is ranked third in the industry, with a 10%

market share (though Whiteman says it's more like 15%). Those numbers may seem surprisingly small — this is the *Post Office*, after all. But the Postal Service has long maintained that it is not out to dominate the express delivery market; all they hope to achieve is to offer the public a full compliment of shipping options. "This is still a very attractive product for us from of the operating margin and revenue standpoint," says Whiteman. "But it's also important to the [Postal Service] image that we can offer a full range of services." Express Mail began in 1971.

Express Mail's advertising, he says, has put a good deal of emphasis on convenience. They've got a point. There are 26,000 post offices where express packages can be dropped off, in addition to over 10,000 collection boxes. The Postal Service has a truck pickup option and, if need be, consumers can even add parcels to their mail carrier's load.

Whiteman says ad expenditures are about \$20 million currently, a figure that has held fairly steady. Tv buys are

concentrated in 21 spot markets, with emphasis put on morning and evening news shows, and prime time. The U.S.P.S. has made no print buys in trade books for the last several months, but has bought into consumer publications like *Time*, *U.S. News & World Report*, *Sports Illustrated* and *People*. Whiteman says national advertising doesn't differentiate by industry or application, but Express targets a bit more in its direct mail efforts.

PUROLATOR COURIER CORP.

"We've dedicated ourselves to the high-anxiety segment of the market," states Gary Garkowski, vice president of marketing. Given Purolator's recent rocky road, some might think he was trying to make light of hard times. He defines this segment, however, as the group that makes use of the industry's competitors to provide on-call pick up and early morning delivery.

Despite several quarters of multi-million dollar losses, Purolator Courier is still credited with an 8% to 10% share of the market.

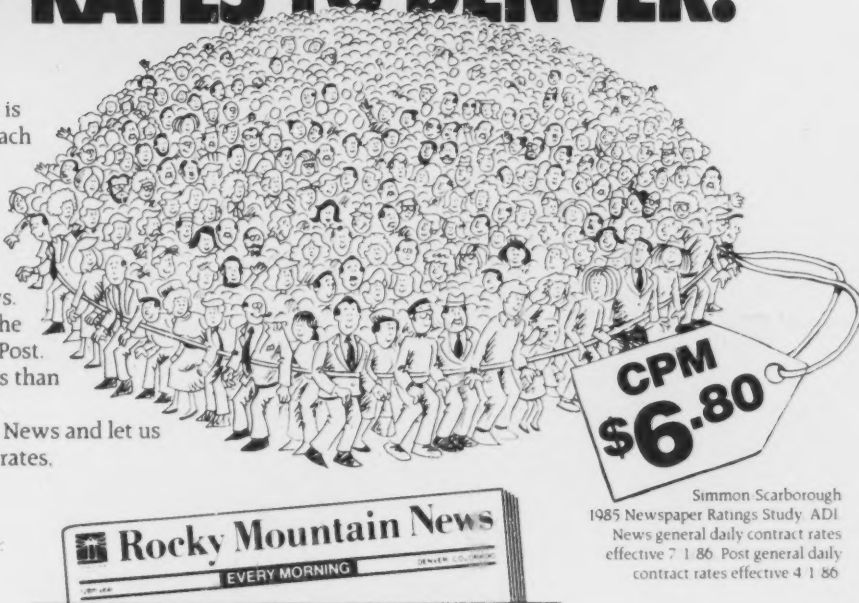
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Simmon Scarborough
1985 Newspaper Ratings Study. ADI
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effective 7 1 86 Post general daily
contract rates effective 4 1 86

paign in the early 1980's that played on popular mispronunciations of its name, such as "Percolator" and "Perpetrator," it stopped advertising altogether in 1982 when it became unable to handle the business it already had. Many feel Purolator's problems stem from the time in the early 1980's when the company veered from its long-standing niche as a low-cost, regional overland delivery service and took to the air in hopes of competing with the likes of Federal Express.

Though the company doesn't plan to abandon any of its air-service capacity, currently about 75% of its shipments are handled by trucks. As other courier companies, Federal for example, have discovered, a solid ground operation can make shipping cheaper, more efficient and allows a company to expand its regional reach.

According to Garkowski, Purolator's ad budget has held steady at about \$15 million for the past two years. As with much of the industry, media buys are concentrated in pre-Christmas and pre-Easter bounces. A large part of Purolator's budget goes to spot tv buys and, says Garkowski, about 80% of that goes to five to ten major markets.

Though the company is still running "maintenance" advertising, it recently switched agencies, moving from Wells, Rich, Greene Inc. to Lois Pitts Gershon Pon/GGK. A new ad campaign is expected later this year.

AIRBORNE FREIGHT CORP.

"We are primarily a direct sales company," explains Kent Freudenberger, executive vice president/marketing division at Airborne. That's especially true for 1986, as the company canceled plans to launch a new \$8 million tv ad campaign this spring.

"Our growth was so explosive in the fourth quarter [of 1985]," says Freudenberger, "that we've had to accelerate our aircraft expansion plans and add more drivers" to ground operations. While Airborne hasn't posted losses, it did see profits drop more than 65% in that quarter. The company claims a 5% share of the market.

"The judgment was made that we'd be better served in the short range," says Freudenberger, to put the "money into the company rather than blow our brains out for another \$10 million or

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\$12 million in advertising." He adds that the company is spending about \$2 million testing new tv commercials through November and hopes to break a new campaign in early 1987.

The company also runs no domestic print advertising currently, though it does use books like the Far East edition of *Time* to pitch its international service. Airborne, he says, has an ongoing direct mail program that pitches new customers and makes follow-up contacts with existent ones.

EMERY WORLDWIDE

Emery's name change, substituting "Worldwide" for "Air Freight," is indicative of how the courier hopes to reposition itself. Emery had traditionally been known as the domestic air freight company that specializes in heavy cargo. Now it is pushing its overseas delivery service more aggressively and is going after some of the industry's lucrative small-package business. The company's current slogan: "Any size, any weight, anywhere."

Credited with a 2.5% market share, Emery has experienced some turbulence of late, reporting a \$9.6 million loss in the first quarter of 1986. It lays some of the blame at the door of a recent strike in the New York area and to flattening revenue growth.

According to Cornelia Thornburg, Emery's account representative at agency J. Walter Thompson Co., the courier has an ad budget for 1986 of \$20 million. Network, spot and cable

tv get 90% of those dollars, she says, the target being infrequent shippers as well as corporate users. "Our whole use of tv and business magazines," she says, "is not just an effort to go after the traffic managers of the world, but also you and me."

Business/consumer print buys include *Business Week*, *Forbes* and *Dun's Review*. Among the trade books on the media schedule are *Jet Cargo News*, *Handling & Shipping Management* and *Traffic Management*. *USA Today* is the only newspaper buy.

DHL WORLDWIDE COURIER EXPRESS

DHL has the lion's share — over 50% — of the international market, servicing 163 countries. But it still manages only a very small part of the U.S. express delivery market.

Founded in 1969, the company has been here all along but mainly used the U.S. as a base for international operations. Though it has made a more aggressive marketing push here over the last five or so years, it holds under 2% market share. Analysts say that, domestically, DHL will have a bumpy flight.

It is essentially trying to do in the states what the U.S. industry giants are trying to do overseas: break into a heavily dominated market. Still and all, says Pam Rhodes, DHL's product manager/international, "The marketplace here is so huge that even though market share increases will probably come slower, volume increases won't." Though DHL spends about \$50 million on advertising overseas, it spends a comparatively small \$6.5 million advertising its overseas services here. It currently runs no advertising pitching its domestic service, and hasn't for the last two years.

U.S. ads for the international service are seen through spot tv buys in large metro areas. Print buys include *Forbes* and *Fortune*. Rhodes says the company is looking at the possibility of regional buys in some news magazines, but current thinking is that they are too broad-based. The company makes heavy use of trades, going into 35 in all; titles include *Shipping and Handling* and *Purchasing Decisions*. Local newspapers get some DHL dollars, as does the *Wall Street Journal*. ■

RATING PEOPLE METERS

THE SOONER, THE BETTER

National people meter measurement is at hand. This is underscored by Nielsen's recent press release announcing their plans to launch either one of two people meter services starting with the 1987-88 broadcast season. The announcement was especially gratifying in that all three broadcast networks have signed multi-year Nielsen contracts that incorporate this transition to people meters. Obviously network concerns regarding sample turnover/representativeness, push button fatigue and viewing levels (future television coincidentals notwithstanding) have been satisfactorily allayed.

Nielsen's first option would use people meter data to replace the diary NAC panel and continue to conform this data to the NTI household sample — in our view inefficient, awkward and illogical. The second option, referred to as the "integrated people meter," would provide both household and people data from a single sample and is clearly favored by Ted Bates.

A properly representative "integrated people meter" sample provides advertisers/agencies with the most effective methodology to buy/plan national television campaigns and produces data virtually identical to the less desirable "conformed" option.

Ted Bates has enthusiastically endorsed people meter measurement in word and deed (AGB subscriber). The following are unassailable advantages offered by people meters over the current NTI-HH

meter/NAC diary-persons "conformed" methodology.

Continuous people measurement

- 52 weeks of data vs. 38 weeks currently with the NAC diary.

Expanded sample size



- Increased stability of data.
- Smaller cells reportable.
- Single sample reporting comparable people audiences for cable, national syndication and network tv.

Eliminates diary weaknesses

- Overstatement of high awareness type programming; understatement of less familiar channels/programs.

- Entry of diary data on a recall basis well after viewing takes place.

- Inability of diary to keep pace with expanding television channels and viewing options.

Cooperation rate

- Superior to NAC diary; comparable to NTI household rate.

Ted Bates firmly believes people meter acceptance establishes the foundation of new/more relevant television commercial measures. For example, merging people meters with a Monitor-plus (identifies commercial activity) type of service will enable agencies/advertisers to quantify our primary concern — commercial audiences on a persons basis. It more readily accommodates measures of channel switching, VCR commercial avoidance and even out-of-room commercial behavior.

This development sets the stage for progress the industry urgently requires to keep abreast of the major technological developments impacting the television medium.

Walter Reichel is executive vice president of media for Ted Bates Advertising, New York.

OUR READERS TELL US . . .

Hard to believe but true. It's time to start planning next year's media budget. *M&MD*, with the help of Research USA, Chicago, polled our advertiser readers to see what kind of environment they are budgeting for.

1. In planning next year's media budget, do you intend to:

Increase your ad expenditures 5%-10%	31.5%
Increase your expenditures above 10%	23.1
Spend at approximately the same level	27.8
Decrease spending in the 5% to 10% range	9.3
Decrease spending by more than 10%	4.6
No answer	3.7

Base: 108

2. In planning your budget, how will locations fall for the individual media?

	Increase	Same	Decrease	Base
Network tv	40.9%	27.3%	31.8%	(44)
Spot tv	41.0	37.7	21.3	(61)
Syndication	39.4	39.4	21.2	(33)
Cable	44.2	42.3	13.5	(52)
Network radio	30.0	45.0	25.0	(20)
Spot radio	41.2	45.1	13.7	(51)
Consumer magazines	39.7	43.1	17.2	(58)
Business magazines	45.3	42.2	12.5	(64)
Newspapers	31.7	46.1	22.2	(63)
Outdoor	25.0	63.9	11.1	(36)
Yellow pages	17.1	65.8	17.1	(41)

UNANSWERED QUESTIONS

The debate is over. America's love affair with technology and competition has prevailed. People meters will be the standard Nielsen service in September 1987. We are all going to try to make it work, but it won't be easy. There are a number of issues that remain to be resolved.

Let's look at three issues that will face the industry this fall: integrated vs. conformed meters, sample size and audience definition.

Ideally, we would prefer to see an integrated people meter system where household tuning and audience composition are measured in the same homes. But the cooperation rate is lower for people meters than for household meters. If this lower cooperation rate produces household ratings in people meter homes that are systematically different from those in homes with household meters, then the household data will be inaccurate and the viewer projection will be even worse. Nielsen will have no choice. They will have to adopt a conformed system — two separate samples in which the audience

composition in people meter homes is pro-rated against the standard of truth: the household ratings in homes with household meters.

How big should the sample be? This is a complicated question. For most



broadcast network programs, a sample of 2,000 people meters will be sufficient and represents a considerable increase of the NAC diary sample. Some cable networks would like larger samples. Nielsen suggested 4,000. But that really won't be a meaningful improvement; to obtain the same relative error for cable networks as for broadcast net-

works would require a ten-fold increase in sample size — a research cost no one will be willing to pay. Also, whatever sample size is needed for people meters would have to be matched by a second household meter sample if we adopt a conformed system.

The third issue is defining the audience.

For example, AGB in England asks people to push people meter buttons when they are in the room. In the United States, AGB and Nielsen ask people to push the button when they are watching. (ScanAmerica asks people to push the button when they are watching or listening.) When Nielsen and AGB were asked why they measured watching instead of in-the-room, they both acknowledged not having given the matter much thought. It's time for the industry to give this question serious thought.

Traditionally, advertising media have been measured behaviorally in terms of exposure, while the advertising itself has been measured in terms of attitudes (attention, recall and persuasion). Measurement of people in the audience should be based on behavior — all viewers know whether they are in the room or not. Self-reported "watching" is too much a matter of individual interpretation.

The next generation of meters will be passive. These passive people meters will automatically register who is in the room. Since that is to be the standard, we should use "in-the-room" measure now with the transitional people meters.

William S. Rubens is vice president of research for the number-one ranked NBC Television Network.

3. What cost increases do you anticipate for the individual media?

	0%-4%	5%-9%	Over 10%	Base
Network tv	51.0%	39.2%	9.8%	(51)
Spot tv	33.8	55.4	10.8	(65)
Syndication	61.9	31.0	7.12	(42)
Cable	61.8	38.2	—	(55)
Network radio	50.0	47.2	2.8	(36)
Spot radio	40.7	55.6	3.7	(54)
Consumer magazines	29.5	60.7	9.8	(61)
Business magazines	39.1	50.8	10.1	(69)
Newspapers	48.3	41.7	10.0	(60)
Outdoor	53.2	46.8	—	(47)
Yellow pages	58.1	32.6	9.3	(43)

4. Does your budget:

Match media cost increases	43.5%
Surpass media cost increases	20.4

Fall short of media cost increases 29.6
No answer 6.5

Base: 108

5. How much negotiation of ad rates do you expect to do this year?

More	58.4%
Less	0.9
Same	33.3
No answer	7.4

Base: 108

6. Is it too early to factor the people meter into television rate negotiations?

Yes	53.7%
No	13.0
No answer; don't know	7.4

Base: 108

TOOLS OF THE TRADE

by Wally Wood

COSTING OUT MARKETING

Is there anyone in marketing who has not wondered — especially during budget season — just what other companies spend?

Not just what they spend on advertising, but on their direct selling effort — sales salaries, bonuses, commissions, travel and entertainment and telemarketing expenses? And let's learn the percent of sales they spend on marketing support and on market research. Wouldn't it be helpful to know — especially if one were a computer company marketing manager — that the average electronic computing equipment company spends 43.9% of its total marketing communications budget on print advertising and only 5.7% on direct-mail? Knowing that, if one were such a manager, one could excuse one's own budget by pointing to the industry averages . . . or try to zig while the rest of the industry zags.

For the first time, McGraw-Hill has such figures for eight industries. They are from a "Survey of Industrial Marketing Costs," based on an nth-name sample of marketing managers in industrial companies drawn from the circulation list of *Business Marketing* magazine. McGraw-Hill Research mailed questionnaires to a sample of 749 marketing managers; after three mailings and telephone follow-up of non-respondents, it had 382 usable questionnaires, a 51% response rate.

As McGraw-Hill's vice president of research Dr. David Forsyth points out, "There is no correct marketing investment for any company. Marketing costs will vary from company to company for many reasons. No two companies enter the marketplace with exactly the same goals, objectives, reputation, market share, quality of product, strength, weaknesses or philosophies. All these factors play a role in determining how much they invest in their marketing."

Right. But with that disclaimer aside, what are my competitors really spending?

McGraw-Hill answers in three Laboratory of Advertising Performance Reports (#8015.5, #8015.6, and #8015.7, \$2.00 each if you want to order them). These break out the responses by company size and by industry, but not by both since the cells become unstable. Nonetheless, the re-

average 4.4% of their sales on marketing communications, companies with sales over \$250 million spend on average 0.5%. The same pattern holds with the other costs: While the smallest companies spend 7.2% of sales on direct selling costs, the largest spend 2.1%. The smallest companies spend 2.2% of sales on marketing support (marketing/advertising planning, advertising salaries and presentation expenses); the largest spend 0.3%. The smallest companies spend 1.3% of their sales on market research (salaries,



ports contain scads of interesting figures.

For example, among all 382 industrial companies surveyed, total marketing costs as a percent of sales average 8.9%. Among computer companies, however, the figure is 15.2%, while among transportation equipment companies, it averages 4.7%. These represent the two extremes among the eight industries the reports break out.

The bigger the company, the smaller the percentage of sales it spends on marketing. While industrial companies with sales under \$1 million spend on

direct expenses, administrative overhead, interviewing and computer-related expenses); the largest companies spend 0.03%.

In absolute dollars, of course, the numbers increase from the small companies to the large. "Let's look at small industrial companies with under \$25 million in sales revenue," says Forsyth. "If we assign a midpoint dollar value of \$13 million in sales, and multiply the \$13 million figure by the percent of sales investment for each budget item, the dollar investment for each budget item will be \$923,000 for

TOOLS OF THE TRADE

No two companies enter the marketplace with exactly the same goals...

direct selling costs; \$286,000 for marketing communication costs; \$156,000 for marketing support costs; and \$52,000 for market research costs."

Running through the same exercise for a mid-size company, one with, say, annual sales of \$75 million, the investment for each budget item turns out to be \$3,225,000 for direct selling costs; \$825,000 for marketing communications costs; \$525,000 for marketing support costs; and \$75,000 for market research costs.

Forsyth, pointing out that the direct selling expense item accounts for two-thirds of the average industrial company's total marketing investment, an average that makes a lot of sense, asks an interesting question: "Is it the most economical?"

The most recent McGraw-Hill survey on the subject (another survey, another subject) indicates that the average industrial sales call now costs \$205.40, up 15% from 1982's figure and up 50% from 1979. Since it takes an average of 5.5 calls to close, it costs \$1,129.70 to close each industrial sale. If one could reduce the number of calls, one could dramatically reduce selling costs.

Enter marketing communications. According to the McGraw-Hill marketing costs survey, the average industrial company spends about 20% of its total marketing budget on marketing communications. Where does the money go?

Most of it — 36.3% (of the 20%) — goes for print advertising. The rest breaks down as follows: exhibits and trade shows, 19.9%; catalogs/directories, 13.6%; literature, deals, coupons,

point-of-purchase, 9.9%; direct mail, 7.5%; dealer and distributor helps, 5.3%; public relations and publicity, 4.8%; and radio/tv/billboards, 1.9%. The LAP Report breaks out these figures by the eight industries.

The challenge to business marketers, says Forsyth, is to better tailor the personal and non-personal media mix to the specific communications need. "Those marketing managers who develop the communications package with the best combination for their products in their markets for today's selling will end up with better informed customers and more products sold."

And knowing what other companies are spending should help.

SENDAWAYS

For those media buyers who believe that knowing something about the editorial content of a publication is as important as the cost-per-thousand and demographics of the book, there's the "1986 Media-Guide."

Twenty-six publications are critiqued by Jude Wanniski, a former editor of the *Wall Street Journal*, with the help of friends and associates in politics and finance. They offer up opinions on such topics as what were the best news stories of the year and what publications covered them best, who is the best foreign correspondent in America, who wrote most reliably about the bond markets and interest rates and what columnists had good or bad years.

The guide is published by Polyconomics, Inc., a corporate, political and economic counselor that tries to make accurate forecasts based on who they know and what they've encountered in the media.

Copies of the guide cost \$16.95. To order, send a check to Polyconomics, Inc., 86 Maple Ave., Morristown, N.J. 07960-9990.

Rebecca Fannin

First Regional Creative Media Awards

Winners of The First Regional Creative Media Awards will be announced and honored at an Awards luncheon on Wednesday, September 18 in Chicago. The event is held in conjunction with Marketing & Media Week.

The growing complexity and importance of media have pushed the media department into a higher profile with today's advertising agency and client. Regional Creative Media Awards are designed to recognize their growing importance.

Anyone from the midwestern states may enter. Submit entries not older than January 1983 with supporting rationale for the selected media and strategy. If entries are submitted for more than one category, include duplicate entry forms and separate complete copies of your entry for each category. Fee per entry, \$15. Entries will be judged on:

1. Clear concise explanation of the innovative approach.
2. Tactical approach.
3. Effectiveness relative to objective.

Awards given for these categories:

1. Most creative overall media plan.

Most creative tactical use of:

2. Television.
3. Radio.
4. Consumer magazines.
5. Business publications.
6. Newspapers.
7. Out-of-home.
8. Sunday magazine.
9. Cable.
10. Yellow pages.

Deadline for entry: Monday, Aug. 18

Please send entries to:

Marketing & Media Education
902 Broadway, New York 10010
Send a stamped self-addressed envelope for return of entry.

ENTRY FORM

Category number entered _____

Key Person(s) to be awarded:
Name _____ Company _____

Entry submitted by _____

Address _____

Phone number (____) _____